INDIA'S WAR FINANCE

AND

POST-WAR PROBLEMS.

BY

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TO

THE MEMORY OF

MAHADEO GOVIND RANADE

at whose feet I had the privilege of sitting in the humble

capacity of a reader and from whom I received

inspiration and guidance for the study of

public questions and the service of

the mother country.

PREFACE.

The social fabric has been shaken to its very foundations more or less in all nations by the impact upon it of conditions and ideas generated by the war, and now that hostilities have ceased, reconstruction and readjustment are in progress every where. India contributed generously to the conclusion of the struggle to a successful issue and the effects of the war upon her have been of a far-reaching character. Her systems of expenditure and taxation, currency and exchange, banking and trade, were put to a severe strain on account of the sacrifices she made for the victory of the cause for which the Empire and its Allies fought; and the need of reconstruction in her social, economic and political institutions has come to be urgently felt. It is the object of the following pages to describe how India served in the war by rendering assistance to maintain the conduct of the struggle at a high level of efficiency, how her finance and currency were constantly adjusted with that supreme end in view and how in the light of the experience of the past five years, certain reforms have become imperatively necessary in her financial and economic organization.

At the desire of the editor of the *Servant of India*, I planned a series of articles reviewing the financial administration of Sir William Meyer on the eve of his retirement from office of Finance Member. As I wrote, I found that the

subject grew on me and that it was not possible to do justice to it in the limited scope that was allowed by a few newspaper articles. I, therefore, decided to extend the plan and to deal more comprehensively with the different aspects of the financial and cognate problems which required discussion, and the result is the book now presented to the public. An attempt is made in the following pages to give the student and the general reader a clear idea of the ways in which India's methods of finance, currency, exchange and banking were adapted to the requirements of the war and to show what improvements are needed in them in order to place this country on the path of healthy economic development particularly in the new era which is dawning upon the world.

Fergusson College, Poona.
31st January, 1919.

V. G. KALE.

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INDIA'S WAR FINANCE AND PEACE TIME PROBLEMS.

Chapter I.

INTRODUCTORY.

PEACE now clearly appears to be in sight. Germany has been isolated and armistice terms she sought from the Allies have been dictated to her on the battlefield by their generalissimo. The enemy may chafe, fret and fume and gnash his teeth, but his demoralization and defeat are patent facts. The destructive activities of the belligerents had already been confined to a comparatively narrow area on account of the surrender of three of Germany's allies and the consequent cessation of military operations in the eastern and near eastern theatres of war, and the conclusion of a general armistice has now established a calm on the remaining fronts. The moment destruction ceases, the process of reconstruction must commence, and this work will prove even more difficult than the task of organization the Allies had to undertake for the efficient prosecution of the struggle. The problems the Peace Conference will have to face will be extremely complicated and delicate, and there will be prolonged deliberations and long drawn-out discussions before the proclaimed aims of the Allies are translated into practical realities. We are not, however, concerned here with

the questions the Conference will have to deal with, though they have an important bearing upon the problems of national reconstruction, one of which, so far as it concerns India, we propose to consider in this place. Nations which have undergone terrible sufferings during the period of war, will have to repair their losses and to take measures to facilitate the process of restoration to normal health and strength.

Things have been disorganized everywhere owing to the hasty adaptation of peace time arrangements to the requirements of war conditions; and industries, banking and trade are being carried on on lines suited only to the conduct of a great war. The conditions of work in factories, the relations of capital and labour, the position of the State with regard to industrial and trade operations, are to-day quite different from what they were four years ago. When the armies are demobilized, millions of soldiers will return to their civilian duties, and they will have to be slowly reabsorbed in their old employments. The factories, which are to-day devoted to the production of munitions, will have to be readjusted to their peaceful tasks and a similar transformation will have to take place in other spheres. This process will take a lot of time, and it is satisfactory to notice that many of the problems have been anticipated in England and work in connection with them has long been taken in hand. The enormous

public debt of England will be the hardest nut that British statesmen will have to crack. France and other countries which have been devastated by the war, will find that question still more difficult to solve. The productive capacity of western nations is, however, great, and their recuperative power will certainly prove equal to the strain put upon them. They will take the lessons of the war to heart and will emerge out of the ruinous struggle, renovated, purified and determined to establish a new order of things in all departments of life.

India had not, indeed, to undergo sacrifices and sufferings on the same scale as England or France, and our problems of reconstruction will not be of the same nature and immensity as the ones confronting those nations.Still the need of a programme of reconstruction and construction in this country is by no means less urgently felt. Indian armies have extorted the admiration of England by the exploits achieved by them in Mesopotamia and Palestine, and the collapse of Turkey has quite properly been attributed to their valour. India has discharged the responsibility assigned to her, as the share falling to her lot, in the most satisfactory manner. She has given her men and material and has cheerfully suffered all kinds of inconvenience and hardship with the view to help the Empire in the vigorous prosecution of the war. When it appeared that the enemy was embarking upon a policy of throwing Northern and Central

Asia into the vortex of war with the object of creating a diversion by driving the tide of hostilities towards Persia and the frontiers of this country, India resolved to raise an additional army of five lakhs to frustrate that cunning design, and also to bear a larger share of financial burden. For obvious reasons, India's contribution in men and money could not be represented by imposing figures like that of England. Her army could not grow by millions and her public revenue and public debt could not leap up by hundreds of millions. If India's contribution was not larger, it was not due to any lack of enthusiasm on the part of her people ; it was the result of her poverty and of absence of opportunity. It has been frankly admitted by persons whose authority cannot be disputed that India could have played even a more useful part in the war if she had been industrially better equipped and her condition economically more strong. The Montagu-Chelmsford report has stated that the industrial development of India has become almost a military necessity from the point of view of the interests of the Empire as much as those of this country itself. And this view has been endorsed by the Industrial Commission, which states that in the future India ought to be made more self-contained in respect both of men and material.

Here is an important problem for reconstruction which ought to be immediately taken in hand.

The weakest spot in the condition of India is the extreme poverty of our people, and the foremost place must be accorded to a fight against that intolerable evil in our work of construction and reconstruction. The work of reconstruction lies in completely overhauling our governmental and economic machinery and in abandoning our attitude of listlessness and drift, so as to make the attainment of the desired aim possible within a reasonable period of time. Finance is the vehicle of government, as the Montagu-Chelmsford report puts it, and that instrument must be so trimmed, tempered and handled that it may more effectively carry out governmental functions. The policy of the State with respect to the encouragement of industries and trade, the expansion of education and improvement of sanitation will, in a large measure, determine the economic development of the country, and a determined effort will be needed to make a rapid advance along these lines. Social and economic reform has been hampered in the past by difficulties and mistakes connected with finance, and during the time of war practically nothing has been done. A suitable system of taxation will have to be devised for the purpose of yielding to the State the necessary funds to finance the urgent reforms, and the experience of the time of war has, we trust, taught those responsible for our financial management many a wholesome lesson in this matter. Vested interests

and wealthy classes may be expected to resist all attempts to impose upon them the burdens which they ought cheerfully to bear, and they are vocal, influential and powerful classes. The interests of the large mass of the population will have to be safeguarded, and the financial burden must be fairly but firmly distributed in proportion to capacity. This financial reorganization will depend a great deal upon the constitutional reforms which are now under consideration—the financial relations between the Government of India and the provincial Governments, the financial control which the provincial and central legislatures will obtain over the executive Governments and the grant of fiscal autonomy to the Government of India under the control of the legislative assembly. It will also depend upon the manner in which the legislatures and the executive Governments discharge their responsibilities.

Other questions which will demand consideration will be those connected with our currency system, the financial management of the India Office, our banking, and our policy with reference to exchange, railways and irrigation. Exigencies of war have seriously disturbed the whole system of our currency and finance. The consideration of the report of the Chamberlain Commission had to be postponed on the outbreak of the war, and Government adjusted its machinery from time to time to the requirements of the situation as it develop-

ed. War conditions forced the hands of Government and compelled them to adopt changes which in peaceful times might not have been made or might have been made after prolonged discussion. The establishment of the gold mint in Bombay is an instance in point. The Chamberlain Commission had taken up a hostile attitude with regard to a gold currency for India, and the scramble that will take place on the return of peace for the possession of the yellow metal, among the nations of the world, lends unprecedented interest to the question of the currency system of this country. Shall we continue to have the present gold exchange standard, or shall we work up to a system of a true gold standard accompanied by a gold currency extensively in circulation? This is a vital question, and it will have to be promptly and finally solved. Foreign exchange is bound up with currency policy and is again closely associated with the establishment of a central State Bank. As in other countries, so in India, the circulation of currency notes has been on an unprecedented scale during the time of war. The Government of India has passed various emergency enactments in order to adjust the currency mechanism to war exigencies. With the steady increase in the quantity of the notes issued, the proportion of the invested paper currency reserve has mounted up, and the bulk of it has been invested in British securities. The Gold Standard Reserve Fund now exceeds Rs. 50 crores and is all similarly invested.

The disbursements which the Indian Government had to make on behalf of His Majesty's Government in this country put a severe strain upon its treasuries and led to the transfer of Indian funds to London in enormous quantities. They also necessitated the emission of huge batches of notes and of huge quantities of rupees. The rise in the price of silver accentuated these difficulties, and the rate of foreign exchange had to be put up. Imports of gold and sovereigns on private account were practically stopped, and export merchants were greatly inconvenienced owing to the artificial condition of foreign exchange.

The Government of India promptly and enthusiastically responded to the call made upon it by His Majesty's Government to render assistance in the prosecution of the war, and the people willingly co-operated with them. These services rendered by India to the Empire were unostentatious and little noticed, but all the same, they were invaluable. An amount of reconstruction will be needed in respect of our currency and exchange policy, and our currency system will have to be permanently established on a sound and stable basis. The interests of London financiers will conflict with those of India, but the latter will have to be given the dominant consideration. The financial management of the India Office—the purchase of silver and stores for India, the investment of Indian money in London and the transfer of our gold to that

city, have already been strongly criticised, and it appears from Lord Islington's recent utterance in that behalf that the Secretary of State is not inclined to let go his hold upon matters which ought to be authoritatively managed by the Indian Government. This question has thus an important bearing upon the impending constitutional reforms, chiefly the reconstitution of the India Office and the modification of the relations of the Secretary of State with the Government of India to the advantage of the latter. The financial affairs of this country must now be managed from India under popular control, and India must be able to receive the full value of every pie of her money. Financial interests in London ought no longer to be allowed to stop or retard the flow to India of the gold to which she is entitled as the price of her exports, and it must be allowed to circulate here to fertilize the fields of industry.

The management of the State railways by State agency is a subject which will have to be decided immediately, and railway policy as a whole will have to be definitely laid down in harmony with Indian public opinion. The railways will, again, clamour for the supply of large quantities of capital for extensions and renewals. The London money market will, for years to come, not be able to supply the Indian demand and capital will have to be raised in this country itself. It is believed that it will be possible to raise the required funds

for our public works in India itself, and the experience of the war loans is cited as an encouraging sign. The unproductive public debt of India is nothing by the side of the burdens of other nations. But the war gift of one hundred million will entail an annual charge upon the revenues of the country, and the debt will have to be steadily wiped off. Government have large assets, corresponding to the heavy liability, but our national expenditure will, in the future, stand at a high level and will go on steadily increasing. It is difficult to say what fresh burdens India may be called upon to bear as her share of the charge of imperial defence, whether India will have a navy of her own, and whether her military expenditure will be curtailed or will remain on the existing basis. The future is shrouded in uncertainty, but we shall have to prepare for bearing what burdens will be equitably and proportionately thrown on our shoulders. Expenditure incurred for measures of reform is, in the long run, more than repaid, but for the time being, it will necessitate additional taxation, and the art of the statesman will lie in devising wise and equitable methods of raising a larger State revenue.

These are the problems of reconstruction which confront the Government of India and the brunt of the struggle will fall upon our new Finance Member, Sir James Meston. Sir William Meyer who has just doffed the armour of Finance Minister, found his lot cast in anxious and troub-

lous times. He was suddenly called upon to face an extraordinary situation created by the war, and he faced it with courage and skill. The position changed from day to day, and he responded to the call made upon him by war exigencies and by the policy determined upon by His Majesty's Government for adoption by the Indian Government. Sir William proved himself to be an expert manager of the financial machine, manipulating it and handling his tools with the dexterity of a resourceful engineer devoted to his appointed task. But his firm grasp of the technique of the trade did not compensate for his deplorable lack of a wide outlook, of a deep insight into the surrounding conditions, and of a lively imagination which descries the possibilities of the future as it feels the requirements of the present and of a generous sympathy with the aspirations of the people. It will indeed be unfair to compare a mariner who has to struggle his way safe through a tremendous storm with a captain who is favoured with calm weather. But it is doing no injustice to Sir William to point out what qualities he demonstrably did not exhibit and in what respects his financial administration was not such a success as people wanted it to be, even in the adverse conditions in which he was placed. Perhaps he allowed his responsibility to weigh too heavily upon him, and did not wish it to be said of him that he faltered or doubted when asked to place all the financial resources of India at the service of the Empire.

His view as to the contribution this country could make to the prosecution of the war in money was correct at the start, but underwent a decided change in course of time till he proposed that India should and could commit herself to an expenditure of £ 45 million for the new armies raised and to be raised in the country. Like the average Anglo-Indian official, Sir William could not have a vision of an India of the near future which badly needed all the funds that could be spared for measures of social and economic reform and all the enthusiasm which could be put into the work. There were several directions in which, even in spite of the distractions of the war, schemes of social and economic development could have been taken in hand and prosecuted. But the faith and the zeal were lacking, and the results of Sir William's financial administration from the people's point of view did not prove satisfactory. In devising new forms of taxation, in properly distributing burdens and in providing finance for schemes of development, not much foresight, sympathy and courage were shown. In England, they were preparing for peace in times of war. In India, war was a sufficient plea for postponing and hanging up all programme of reform. From the people's point of view, and that ought to count for most, this was the serious drawback from which Sir William's financial administration suffered, and to an impartial critic, there is no escape from this conclusion however much he may sym-

pathise with the Finance Member for the embarrassing circumstances in which the latter found himself placed.

Sir James Meston who succeeds him has no light task set before him. He will undoubtedly have comparatively favourable conditions to work in. The stress of the war will steadily diminish, and normal conditions will be slowly restored. But the work of reconstruction will be heavy and his responsibilities will grow. There are a hundred and one things which have to be adjusted, and the problems of the peace times, which will succeed a war of such dimensions and far-reaching consequences, will prove more difficult than those created by the conditions of the war itself. The expectations of the people have been raised to a high pitch, and there are the constitutional reforms which will throw a heavier burden upon the ministers. People can no longer be put off with the plea of war distractions nor can their criticism be met with the old arguments that Government knows more about their affairs and cares more for their interests than their representatives and leaders. The different problems that will have to be immediately tackled have been briefly indicated above, and they will demand all the patience, all the earnestness and all the courage that Sir James may command. Fortunately, he is not a stranger to the country and is not new to the task to which he has been called. It is not so much experience

recently acquired as the Lieutenant-Governor of the United Provinces,—though even that has given him opportunities to watch the trend of things from a distance as a detached spectator—that will help him at this new post as the training he already had gained in the working of the financial department of the Government of India. It was reported some time ago that, while in England on leave, he utilised the opportunity to get a thorough insight into the India Office working of finance. Sir James is well-known for his great ability, and one may look forward to his financial administration during the next five years with high hopes and trust that it will leave a permanent mark upon the development of India. The opportunity is unique, the scope for achievement is vast and the work is such that it may appeal to higher instincts and conspicuously bring the great capacity of the Finance Member into play and earn him a glory which others may envy. We do not wish to ignore the obvious limitations of his position and entertain or raise unduly high expectations. At the same time, we cannot but indicate the high purpose and the urgent importance of the task that has to be performed and express a reasonable hope that it will be done in the right spirit and with the necessary foresight and courage.

Chapter II.

ON THE OUTBREAK OF THE WAR.

LITTLE could Sir William Meyer dream when he presented his first financial statement to the Supreme Legislative Council on 2nd March, 1914, that the voyage of his five years' financial administration was destined to encounter the fearful storm of the greatest war known to history. As it turned out, within a few months of the presentation of his budget, the conflagration of war started, and having raged for a little more than four long years was not brought under control till he retired from office. Naturally little anticipating the perils that were to beset his course, Sir William opened his speech expounding his budget arrangements with an appeal to the Council for indulgence and consideration in view of the fact that even in the most favourable circumstances it would have been no easy task to take over the reins of financial administration from such a competent and popular predecessor as Sir Guy Fleetwood Wilson and of the further fact that the economic outlook was not quite satisfactory on account of the failure of September rains and the disturbance of commercial conditions caused by the banking crisis through which the country was passing. He paid Sir Guy no mere conventional compliment when he observed that 'his intimate knowledge of English and

Indian finance was reinforced by a practical sagacity and a genuine love of India and her peoples which won confidence and esteem in this Council and the country generally.' The diffidence Sir William felt was thus justified by the less favourable conditions by which he was surrounded and by his accession to office as a successor to such a capable and popular Finance Member as Sir Guy Fleetwood Wilson.

The situation was not, however, desperate, nor were the prospects gloomy. They only suffered by comparison with the prosperous years which had preceded. Sir Guy's last complete year of office had closed with an aggregate imperial and provincial surplus of over £ 7½ million, and on the usual calculation that the season would turn out to be normal and after making contributions towards local administration and social advance, he had been able to budget for an Imperial surplus of about £ 1⅓ million for the year 1914-15. But things did not shape themselves as anticipated, and the year 1913-14, when completed, was not going to leave behind it any unexpected surplus to be distributed for outlay on social reforms and to enable the Finance Member to introduce into his budget such attractive features as had become customary during previous years. The revised estimates showed almost the same imperial surplus as the budget, the provincial deficit, the result of the provinces drawing upon their reserves with

the Government of India, was reduced by more than a million and the nominal deficit in the budget was converted into a surplus of half a million. The budget estimate for 1914–15 provided for an imperial surplus of £ 1¼ million and a provincial deficit of £ 3¼ million and, therefore, an aggregate nominal deficit of about £ 2 million. There was little that was extraordinary about the budget except that it did not provide for any considerable grants to provincial Governments. The balances of the latter with the Government of India were steadily growing as their spending capacity was limited, and they were perhaps conserving their resources for financing well-thought-out programmes of educational expansion and sanitary and medical improvements.

The financial situation in 1913–14 and 1914–15 referred to above, will be clear from the following tables :—

[In millions of £]

	Budget, 1913-14			Revised, 1913-14.		
	Imperial	Provincial.	Total.	Imperial	Provincial.	Total.
Revenue	5·644	29·280	82·324	53·619	30·643	84·262
Expenditure.	51·718	32·193	83·911	52·291	31·384	83·675
Surplus (+) or deficit (−)	+ 1·326	−2·913	− 1·587	+ 1·32	− ·741	+ ·587

Budget Estimate, 1914–15.

[In millions of £]

	Imperial.	Provincial.	Total.
Revenue	54·261	30·772	85·033
Expenditure	52·981	33·981	86·962
Surplus (+) or Deficit (−)	+1·280	−3·209	−1·922

The capital programme for the year, 1914–15, may be exhibited as follows :—

Outlay	£ : Million	Assets	£ : Million
Capital outlay on		From balances	4·6
(*a*) Railways	12·0	Imperial surplus of 1914–15	1·3
(*b*) Irrigation	1·2	Rupee loan	3·3
(*c*) Delhi	·7	Sterling borrowings	6·2
Repayments of Indian Bonds &c.	·7	Unfunded debt	1·8
Outlay from Provincial balances	3·2	Famine insurance allotment (·2) & minor items	·7
Local Loans Account, Imperial and Provincial	·1		
Total ...	17·9	Total ...	17·9

The budget for 1914–15 provided for capital expenditure on railways up to the high level which had come to be regarded as essential, *viz.*, £12 million a year. The exchange position was satisfactory,

and the circulation of currency notes was steadily increasing. The Gold Standard Reserve was growing up year after year, and the bulk of it was invested in England. To meet the total capital outlay of £17·9 million, £3·3 million was to be raised by a rupee loan and £6·2 million by sterling borrowings. The rupee loan of 5 crores which was proposed was a record demand on the Indian loan market; but Sir William stated that it was justified not merely by 'the general considerations which prompt every country to keep as much of its public debt as possible in the hands of its own people,' but by the fact that it had then become more economical to borrow in India than in London. Another source to which Government looked for assistance, though not available immediately, was the deposits in the Postal Savings Banks. They, therefore, decided to raise the limit on annual deposits in these banks from Rs. 500 gross to Rs. 750 net and also to raise the total amount that could be held by a depositor, from Rs. 2,000 to Rs. 5,000. As regards the banking crisis, Government increased considerably their interest-free balances with the Presidency Banks as soon as it arose and later, decided to make loans to them at a moderate rate to enable them to render assistance to banking institutions which might apply to them for accommodation owing to monetary stringency. As the budget had no striking features about it, the discussions which took place in the Council on

resolutions connected with it or in the course of the annual debate, were also of the usual type and went along the familiar lines. Hon'ble members wanted larger amounts to be spent on education and sanitation, and they were told that provincial Governments already had more funds than they could lay out. Financial assistance was solicited on behalf of certain provinces for measures of reform, but Government saw no reason to modify the settlements already made with the Provinces. Certain members objected to unnecessarily large surpluses being provided in the budget and were told in reply that caution and foresight were then essential. The high standard of the railway programme came in for adverse criticism, but was justified with the usual arguments.

It is unnecessary to describe here the circumstances in which the war broke out, nor to say how Great Britain was compelled to unsheath her sword. Equally needless is it to state how when the armies of the Allies were not sufficiently numerous and organized to resist the calculated and well-prepared rush of the enemy into Flanders, Lord Hardinge, our Viceroy, offered to His Majesty the King-Emperor, with perfect confidence and pride, 'the fine and largest military force of British and Indian troops for service in Europe that has ever left the shores of India.' At the meeting of the Supreme Legislative Council of 8th September, 1914, Lord Hardinge read His Majesty's message

to the Princes and peoples of India and referred to the loyal and enthusiastic response made by them. The Hon'ble Sir Gangadhar Chitanavis then moved a resolution giving expression to India's feelings of devotion to the King-Emperor and to her keen desire to share in the financial burden imposed on the United Kingdom by the war in addition to the military assistance that was being afforded. The resolution was warmly supported by the Council and accepted by Government; and the Viceroy stated that 'we should accept such portion of the cost of the expeditionary force as would have fallen upon India had our troops continued to be employed in this country under normal circumstances.' The cost, roughly calculated to the end of the year, was put down at one million sterling. Lord Hardinge emphasised the value of the assistance India was thus giving to the Empire. India had placed a large portion of her army at the disposal of His Majesty's Government—an army primarily maintained for the defence of the country—and at the same time she was making a contribution of a million sterling at a time when the war was likely materially to affect our budget arrangements. 'A contribution more liberal than this,' said the Viceroy, 'would not be fair to the Indian taxpayer.' Another resolution of loyalty and devotion to His Gracious Majesty the King-Emperor was passed by the Council on 24th February, 1915.

Excepting the late Lord Kitchener, none had thought that the war would run into a fourth year; and it was one of our most serious miscalculations connected with the struggle that almost everybody expected that it would be over in a year, if not earlier. 'Business as usual' was therefore the motto of every one and many even made it a point, with excellent intentions to be sure, to demonstrate ostentatiously how little affected they and their country were by the events of the war. As the conflict proceeded, however, its effects began to be felt by the people even in this country. It is true that except for the momentary panic caused by the antics of the Emden, India did not realize—being at a long distance from the theatre of hostilities—vividly the character of the calamity which the Kaiser and his counsellors had brought upon the world. But India was bound to be adversely affected by the dislocation of trade and industry caused by the war. India is closely linked up with the outside world by ties of export and import trade, and it was impossible that she should escape the effects of the disturbance of normal conditions which had taken place elsewhere, particularly in the United Kingdom, the nerve centre of the Empire of which she is an important part. As we have shown above, the budget for the year 1914-15 was of a normal character, and if nothing unusual had happened, the financial position at the close of the year would have been even more

favourable than it was anticipated to turn out. But all calculations had been upset by the extraordinary conditions created by the war; and exchange, currency, state revenue, banking, foreign trade, all suffered from the effects of the shock of the conflict.

The modern mechanism of exchange is so delicate that even the rumour of war is sufficient to derange it. The belligerent countries experienced great difficulties in this connection during the war, and various devices had to be resorted to to keep the machinery in working order. The Indian currency system with its gold exchange standard imposes on the Government the responsibility of maintaining the exchange value of the rupee at the legal level, and the demand for remittance abroad has to be met by the issue of gold or the sale of bills and transfers on London. The Government of India had obtained ample experience of this exchange trouble in the crisis of 1907–08, and even before Great Britain actually entered upon the war, they had formulated the necessary measures, having announced on 3rd August their readiness to support exchange by all means in their power. The recommendations of the Royal Commission on Indian Finance and Currency, whose report had been already published, were a guide to Government, and they shaped their policy in accordance therewith. They announced their intention to sell sterling bills or 'reverse councils' on London up to

a maximum limit of £ 1 million a week, and telegraphic transfers also were to be sold for the greater convenience of the public. By the end of the year, 1914–15, bills and transfers had been sold to the extent of about £ 8¾ million. The sums received in this country by the sale were credited to the Gold Standard Reserve as they were withdrawn from the Reserve in England by the Secretary of State to meet bills and transfers. Governmen- likewise gave effect to the suggestion of the Chamberlain Commission that £ 4 million of silver held in the gold reserve in India should be exchanged for an equivalent quantity of gold previously held in the Paper Currency Reserve, thus strengthening the gold position in this country.

But the effects upon the Postal Savings Banks and Paper currency were more serious. Public confidence had been shaken by the failure of a large number of joint stock banks, but postal savings banks had ever been popular. The deposits in them had materially increased on account of the liberal conditions which had been announced in March of the previous year, amounting, by the end of July, to Rs. 24½ crores. But the wild rumours which floated in the bazars about imaginary reverses sustained by the Allies and the pranks of the mischievous *Emden* which seemed to lend colour to the absurd stories, created a panicy condition of mind among the ignorant classes, and there was a heavy run upon the banks.

During the months of August and September alone there was a net withdrawal of about 6 crores. In such an excited state of the public mind the most effective remedy is to make prompt payments in response to the demand and thus to help in the restoration of confidence. This the Government did with admirable resolution and promptitude, and though the banks had lost about Rs. 10½ crores by the withdrawal of deposits by the end of the official year, the panic steadily subsided and normal conditions were restored. A similar policy was adopted in connection with the encashment of currency notes. The demand for cash in return for notes was very heavy and abnormal in Bombay. Ignorant people were in a hurry to realise their assets as they thought the paper in their possession would lose all its value, and they ran frantically to currency offices to encash notes. Government not only met the demand fully and promptly, but gave special facilities for encashment, and the panic soon subsided. Shortage of shipping due to the use of vessels for military transport purposes caused a depression in the jute and cotton markets. In the case of cotton and other staples, Government decided to facilitate an extension of credit which would assist in the holding up of existing stocks where necessary. Tea and groundnut were also similarly affected, and the local prices of wheat having abnormally gone up, drastic restrictions were imposed upon its export.

It will be seen from the above brief account how the shock of the war was met in India resolutely and with complete success. There was panic and dislocation, and our financial and currency system was put to a difficult test. But whatever the disturbance and the inconvenience, the adjustment was prompt and satisfactory. We might the Finance Member observe with pride that "we have in truth been much buffeted, but the inherent strength of our financial and economic position have been demonstrated at every turn." India steadily faced all her obligations and had to resort neither to a *moratorium* nor to outside resources for extraordinary measures of help. * Sir William Meyer, however, found that owing to the adverse effect of the war upon trade and industries, his expected surplus of £ 1¼ million had

* Even before Great Britain formally declared war, the difficulties of bill brokers and accepting houses in meeting their engagements, had led Government to proclaim that payment of bills of exchange, if accepted before 4th August, might be postponed for one calendar month. This was on 2nd August 1914 and the Stock. Exchange had been closed even before that, on 30th July. A general moratorium was proclaimed on 6th August and on the same day, the Treasury was authorised to suspened the Bank Act, if necessary. The Treasury was also empowered to issue £ 1 and 10 s. currency notes which were to be legal tender in the United Kingdom. The unfavourable exchange on America, later on, compelled Great Britain to raise credits in the U. S. A. in order to meet its obligations there and to use American paper held by British citizens to liquidate its foreign debts.

been converted into a deficit of £ 2¾ million. The provincial deficit was reduced by £ 1 million on account of the provinces having drawn upon their balances to a smaller extent, and it was calculated that the year would close with a total deficit of about £ 5 million. The ways and means position had likewise not answered expectations. The resources which had been counted upon, failed, and the gap was filled up by borrowings on a larger scale, in England and in this country, a loan being also taken from the Gold Standard Reserve Fund.

How the Finance Member's calculations went wrong owing entirely to war conditions, may be understood by a glance at the following comparative table :—

[In millions of £]

	Budget 1914-15.			Revised 1914-15.		
	Imperial	Provincial.	Total.	Imperial.	Provincial.	Total.
Revenue.	54·237	30·842	85·079	49·927	30·222	80·156
Expenditure.	52.981	84·048	87·029	52·669	32·446	18·115
Surplus + Deficit −	+ 1·256	− 3·206	− 1·950	− 2·742	− 2·217	− 4·959

The budget estimate for capital outlay was reduced from £ 17·9 to 16·1 million by retrenchment and the latter amount was obtained in the

following ways as compared with those proposed in the budget:

[In millions of £]

	Budget Estimates 1914–15	Revised Estimates
From balances	4·9	2·6
Imperial surplus or deficit	1·3	—2·7
Rupee borrowing	3·3	10·6
Sterling borrowing	5·9	10·9
Unfunded debt	1·8	—5·1
Famine insurance allotment and minor items	·7	—2·1
Total ...	17·9	16·1

The budget estimates for 1915–16 were very naturally framed on the assumption that the war would continue throughout the year and were based on the revised figures for the preceding year. This meant an Imperial deficit of about £ 2¾ million and a provincial drift upon the balances to the extent of one million, a total deficit of £3¾ million. Then there was the demand for funds for capital expenditure. The railway programme was cut down slightly to £8 million, but the temporary debt raised during the previous year had to be paid off. Here a very important question arose: how was the large deficit to be made up? It was suggested that the example of England ought to be copied, and special taxation must be imposed. Here was a shortage of funds, it was contended, and the estimated expenditure was in

excess of the expected revenue, and here was a strong case for the imposition of additional taxation which people would cheerfully pay in view of the prolonged strain upon the resources of the State. In reply to this argument Sir William Meyer laid down an eminently sound principle. He observed :—" We do not propose on this occasion to raise any money by increased taxation. We should not hesitate to do so to meet a deficiency in revenue which promised to be of a more or less abiding character ..... We hope that this necessity has not arisen since the deficits of the current and coming years are, as already stated, entirely the product of special and temporary circumstances; while, as regards ways and means, we see our way in spite of these deficits, to financing all outlay immediately necessary."

The following are the estimates for 1915–16.

Budget Estimate, 1915–16 (Million £)

	Imperial.	Provincial.	Total.
Revenue	49·655	30 692	80·347
Expenditure	52·669	32·446	85·115
Deficit (—)	—2·742	—2·217	—4·959

Ways and Means Estimate, 1915–16.

Outlay		*Assets*	
Imperial deficit	2·8	From balances	4·5
Provincial deficit	1·0	Rupee borrowing	3·0
Capital outlay		Sterling borrowing	6·5
Railways	8·0	Famine insurance and miscellaneous items	·4
Irrigation	1·1		
Delhi	·3		
	9·4		14·4
Discharge of debt	1·0		
Unfunded debt	·2		
	14·4		
Add—Discharge of temporary debt raised in 1914–15	14·0	Add—Renewal of temporary debt raised in 1914–15	14·0
Grand total ...	28·4	Grand Total ...	28·4

Though there was thus a deficit to be faced in 1915–16 and the capital programme had to be reduced, the Finance Member refrained from resorting to fresh taxation on the ground that the difficulty was of a temporary and exceptional character. The decision of Government not to levy additional taxation was hailed with satisfaction by the people who had thought that the impending deficit could not be met with the existing sources of revenue. The budget programme provided for the renewal of the temporary loans of £ 14 million, for fresh borrowing to the extent of £ 9½ million and for drawing upon balances to the amount of

£4½ miles, thus making up of a total of £ 28½ million. In deciding to make up the deficit caused by an excess of expenditure over income on purely Imperial account by borrowing, Government took their stand upon India's excellent credit, the accumulation of large balances in her various funds, the extremely small dimensions of her unproductive debt and on the temporary character of the adverse financial conditions. It will look like being wise after the event to suggest that special war taxes should have been imposed to meet the deficits the war had caused and was likely to cavse in the succeeding years. For, few thought at the time that the war would be prolonged into its fifth year and that heavier sacrifices would have to be made in consequence. Without disputing the wisdom of the 'no additional taxation' policy which was adopted by Government when the end of the struggle did not appear to be very distant, one would, however, have liked to see funds made available for the prosecution of schemes of social reform whose progress was arrested by the economy and retrenchment which the ways and means position of the Government of India imposed upon the provincial Governments. Additional taxation would have been preferable to the slackening of the speed of advance which was much too slow even at its best. If provincial Governments had been left free to spend out of their balances as much as they regarded

necessary, Government of India's resources would indeed have been subjected to a strain at a time when every available million was needed to adjust the financial position to the urgent requirements of a difficult position. The only alternative to additional taxation was a reduction of expenditure on comparatively less urgent and less important items. This aspect of the problem did not escape the notice of the members of the Supreme Legislative Council, and a resolution was proposed by the Hon'ble Mr. Dadabhoy recommending that the allotment for railways should be reduced by Rs. 50 lakhs and that the amount so freed be allotted to the provincial Governments for the development of education and sanitation. But the suggestion was not accepted on the plea that after all, the railways were not receiving a large allotment and that education and sanitation were not likely to suffer to any appreciable extent.

Three resolutions moved by the Hon'ble Pandit Madan Mohan Malaviya, one asking for a provision of 12 lakhs for the promotion of industries, another for the reduction of the working expenses of the railways by 10 lakhs, and the third for the cutting down of the budget provision for capital expenditure on railways by 25 lakhs, fared the same fate. Apart from the merits of the specific suggestions embodied in these resolutions, it must be stated that they showed the keenness of the representatives of the people that the cause of

social and economic development should not have been made to suffer. In spite of the sympathy the officials feel for that cause, they cannot appreciate the intensity of the desire of the people that the progress of their country should go on unhampered and at a rapid pace. This is the secret of the divergence of view that emerges at every turn whenever questions relating to measures of advancement and a liberal outlay of funds therefor come up for discussion. It was, however, a most gratifying circumstance that Sir William Meyer stood up to defend India and to vindicate the liberality of the contribution she was making to the prosecution of the war. But for her financial sacrifices there would have been no deficits in 1914-15 and 1915-16, and what was of greater value, India gave her trained soldiers in addition to money. When the contribution of India was compared to that of the Colonies to the disadvantage of the former, the Finance Member said :—
"My Lord, I do not want to be thought to belittle the Colonies in any way ; but I love the people of India. I have served here for a generation, and I cannot bear anybody to belittle India, and to speak as though the part played by India in the war and her contribution to it, were in any way inferior to that of other parts of the Empire."

Chapter III.

INDIA'S SERVICES TO THE EMPIRE.

WHATEVER hopes might have been entertained at one time about an early cessation of hostilities, were well nigh dissipated by the beginning of 1916, and though one constantly heard experts as well as non-experts, talking of a decisive spring offensive, a crushing enemy defeat and the imminent exhaustion of Germany, people were not wanting who said that the end was distant and that we must prepare for a prolonged struggle. India had, by that time, recovered from the immediate dislocating effects the war had produced upon her trade, currency, banking and exchange, but had still to deal with certain difficult questions forced upon her by the continuance of the struggle with regard to the economic and financial position. The ship of financial administration was no longer assailed by strong gales threatening to upset her every moment, but her course still lay through perplexities which required a good deal of skill and strength to negotiate. Monsoon conditions were not satisfactory, foreign trade was hampered by scarcity and dearness of freight, restrictions were imposed on exports and imports, beneficent expenditure had to be reduced, and, on the whole, the financial outlook was far from cheerful. In the words of Sir William Meyer, though in some res-

pects we had less to fear from the element of surprise than in the previous year, we had settled down to a further realization of the test of endurance imposed upon us by a prolongation of the war.

Not only had the rush upon postal savings banks ceased but the amount of deposits was slowly rising. The aggregate amount held in these banks had been reduced from 24¼ crores at the beginning of August, 1914, to a little less than 15 crores on the 31st March, 1915. During the twelve months succeedisg this date, the total savings bank balances increased and stood somewhat higher at the close of 1915–16 than they were a year before. Similarly the circulation of paper currency which had received a check on the outbreak of the war, was satisfactorily expanding as may be seen from the following statement giving the active note circulation, *i. e.*, excluding notes held in reserve treasuries and the headquarter offices of the Presidency Banks, on the 1st February in each year. The expansion was largely the effect of the policy of Government of giving facilities for the encashment of notes.

Circulation of Currency Notes

1912	...	...	46·75	crores
1913	...	...	51·29	,,
1914	...	...	51·91	,,
1915	...	...	45·09	,,
1916	...	...	54·11	.

The last figure was, for the time, a record in the statistics of active note circulation, and in view of the critical times through which the country was passing, it was a remarkable circumstance full of promise.

The revised estimates, as compared with the budget, showed an increase of about £ 2 million in revenue, owing mainly to larger net receipts from state railways, and there was an increase of expenditure of some 1⅓ million chiefly on the army. The provinces were expected to spend half a million less than anticipated and the combined effect of this was to reduce the aggregate deficit from £4 million to £ 2¾ million. The ways and means position too had undergone a change. The railway programme had to be cut down from £8 million to £4·9 million and the sterling borrowings were reduced from £ 6·5 million to £ 3·1 million. Taking the revised estimates for 1915–16 with a slight addition of necessary expenditure and the existing scale of taxation as the basis of the budget for 1916–17, the Finance Member was faced with an imperial deficit of £ 2½ million, and together with a provincial deficit of £⅓ million, an aggregate deficit of about £ 3 million. Was the deficit to be met by renewing the loan taken from the Gold Standard Reserve—other borrowing was difficult if not impossible, and £ 3 million out of the £ 7 million taken from that Reserve had been returned—or was additional taxation to be imposed?

Curtailment of expenditure was not thought possible, and the provincial Governments were not even getting from their balances with the Supreme Government what they would have usefully spent upon education and sanitation. A big war loan might possibly have been floated in India and the success of the future war loans could have been anticipated. But borrowing as an alternative to additional taxation was not justified. The burden of the increased public debt—and it would be unproductive debt—would have fallen upon the mass of the people and the process of the amelioration of their unsatisfactory condition would have been hampered. Under the existing system of taxation, public burdens were not quite equitably distributed, and it cannot be said that the wealthy made their proper contribution to national expenditure. Borrowing might perhaps have been popular, and the richer classes would have welcomed it in preference to taxation that would fall upon them. It could not, however, have been a wise, and from the point of view of the mass of the population, a just policy.

If the budget for 1916–17 had been framed on the old basis of taxation and no additional imposts had been levied, the position would have been this :—

In millions of £.

	Revised, 1915–16.			Budget, 1916–17.		
	Imperial.	Provincial.	Total.	Imperial.	Provincial.	Total.
Revenue	51,868	30·638	82·506	52·004	30·548	82·552
Expenditure	53·968	31·296	86·264	54·599	30·913	85·512
Deficit (—)	-2·100	—·658	-2·758	-2·595	—·365	-2·960

Government took a correct view of the situation and decided that the time had come when the imposition of additional taxation was necessary. So long as it was believed that the war would not continue into a third year and entail a steadily increasing expenditure, they contented themselves with temporary and exceptional measures for meeting their requirements and refrained from raising more revenue by altering taxation arrangements. The position was, however, altogether changed in 1916, and the conditions under which the 'no additional taxation' policy had been determined upon during the previous years, had vanished. Deficiency in revenue was, more or less, of an abiding character, and there was no reasonable prospect of an immediate improvement. The stress of war expenditure appeared certain to grow, the field for borrowing was limited, and the demands upon the treasuries threatened to be insistent and expansive. It was not a time for patchwork and makeshifts, and hesitation to devise means to raise more money by taxation would have proved shortsighted and perhaps disastrous. Government applied themselves boldly to the task and proposed to raise an additional £ 3·6 million as against an estimated imperial deficit of £ 2·6 million, thus securing a comfortable surplus of one million. The additional revenue was obtained as follows :—

(1) £2,150,000 from customs and consequential changes in the excise duties on liquors.

(2) £600,000 by an enhancement of the duty on salt.

(3) £900,000 by an increase under income tax.

With taxation thus enhanced, the budget stood as follows :—

Budget, 1916–17.

In millions of £.

	Imperial.	Provincial.	Total.
Revenue	55·651	30·548	86.139
Expenditure	54·599	30·913	85·512
Surplus (+) or Deficit (—)	+ 1·052	—·365	+ ·687

The general import tariff of India which had, since 1894, been upon the basis of a rate of 5 per cent. *ad valorem*, was raised to 7½ per cent., the duty on sugar being raised to 10 per cent. Certain articles were continued on the free list, and others were subjected to an import duty of 2½ per cent. Taxation on liquors was likewise enhanced in different degrees, and tobacco, cigars and cigarettes came in for enhancement. An export duty on jute and tea completed the changes in the tariff. The Finance Member had to tread on very delicate ground when he came to the taxation of cotton goods which he did not propose to touch. It was a long-standing grievance of the Indian people

that the low duty of 3½ percent levied on imports of cotton cloth, accompanied by a corresponding excise duty on cloth produced in Indian mills, was unjust to India and was dictated by the selfish interests of Manchester which were too strong for His Majesty's Government. The utter helplessness of the Government of India in safe-guarding and promoting the interests of this country when they come in conflict with the profits of British manufacturers, was never more glaringly demonstrated than when the Finance Member stated that strong representations in favour of a material increase in cotton import duties without any enhancement of the excise, made to His Majesty's Government, had proved unavailing, and that what could not be cured, had to be endured. The attitude of the British Cabinet was sorely disappointing, and its plea, that controversial issues could not be raised when the Empire was in the midst of a terrible war, was absolutely unconvincing. It should have borne in mind that apart from considerations of justice to India, the requirements of the war situation made it necessary that the Indian Government should be enabled to raise revenue by all measures which they thought suitable to discharge the responsibilities thrown upon them.

The proposal to raise the tax on salt from Re. 1 to Re. 1¼ per maund, was open to serious objection. The enhancement of the duty was based upon the idea that the salt tax had always been regarded

as a reserve to be resorted to when the country was involved in war or other financial calamities. The Finance Member could not, however, make out a case in favour of the proposed enhancement of duty. All his resources were not so exhausted that he should have come forward with an impost which was certain to hit hard the poorer classes who had their sufferings to face on the score of high prices. The tax was probably intended to placate the few wealthy people who would be subjected to an enhanced tax on incomes and othes who would grumble at the additional though comtparatively small demand made upon their purses. It was not necessary to bring the war home to the poor masses by taxing a necessary of life, and there were other and better ways of raising the additional £ 600,000 which the enhanced salt duty was expected to yield. The enhancement of the rates of the income tax and the introduction of the principle of graduation were, on the other hand, perfectly sound propositions and met with general approval in the country. This burden fell upon people who were well able to bear it, and the richer classes could not shirk the responsibility which devolved upon their shoulders.

A more serious, and we may say, fundamental objection to the taxation proposals, remains to be noticed. The imperial deficit which the Finance Member had to cover, amounted to £2·6 million and the proposed arrangements were calculated to

yield £3·6 million, leaving a clear surplus of £1 million. Was it necessary for Sir William when he was hard put to it to devise suitable means of raising more revenue and had even to tax the salt of the poor, to budget for a large surplus? Overestimation of expenditure and underestimation of revenue had, in past years, yielded large surpluses which had been devoted to capital expenditure. This meant that more money was taken out of the pockets of the people than was necessary to maintain a financial equilibrium, and taxation stood at a higher level. It may be observed in fairness to the Finance Member that the economic and financial position of the country was abnormal and that he had to provide for resources sufficient to meet heavier calls that might be made upon him at any time. But we cannot help drawing pointed attention to the comparative neglect to which the cause of educational and social reform was consigned, while every provision was being made far growing military and civil expenditure. The obvious pre-occupations of the war were not a sufficient excuse for marking time in the matter of expansion of education, improvement of sanitation and the promotion of industries. People would have cheerfully borne heavier financial burdens, if schemes for the promotion of national well-being had been prudently taken in hand and had exacted that sacrifice. We would have liked to see Government impose additional taxation in the very first year of the war in order not to be compelled to abate the pace of progress and in order that they might be able even to hasten it. It should have

been anticipated that the termination of the war would bring new problems to the fore, and that there would be financial difficulties to encounter on the inauguration of peace as in the midst of the conflict. The imagination, the forethought and the progressive impulse which we here postulate, were sadly lacking and a hand-to-mouth policy was the result.

While contending that with the further prolongation of the war economy in every direction was imperative, the Finance Member attempted to show that the retrenchments made under Education and Medical were not in any way of a sweeping character. People wanted that the progress of expenditure on these heads should continue at the pre-war, if not at a more rapid pace, and they were comforted with the assurance that the Education and Medical expenditure was still on a somewhat higher level than in the pre-war year, 1913-14, and as regards education alone, the outlay in the years 1911-13! The following statement shows the so-called progress :—

In thousands of £.

Year.	Education.	Medical.	Civil Works.
1911-12	1,963	1,088	4,619
1912-13	2,490	1,142	4,936
1913-14	3,056	1,199	5,950
1914-15	3,182	1,362	6,128
1915-16 (Budget)	3,270	1,299	4,892
1915-16 (Revised)	3,064	1,351	4,586
1916-17 (Budget)	3,137	1,318	3,945

The programme of rupee borrowing carried out in August 1915, was a complete success, the loan having been over-subscribed by more than two crores. The important departure initiated at the same time in the direction of trying to attract the small investor to Government loans by opening the Post Office section as a supplement to the main loan, yielded satisfactory results, as much as Rs. 50 lakhs having been secured through the Post Office. For the year, 1916–17 it was proposed to raise, outside the Post Office section, £ 4 million by a fresh loan, and in view of the fall which had taken place in the market price of 3½ and 3 per cent. Government paper, to attach to it conversion privileges. The capital programme for the year shrank to small dimensions. The allotment for railways amounted only to £ 3 million. It was almost impossible to raise more funds, and railway material was dear and hard to obtain.

It is necessary to ephasise that the services India has rendered to the Empire were not confined to the supply of soldiers for fighting the battle of liberty and right. The services have been varied, direct and indirect,—but all substantial. In the first place, she despatched a large part of her well-seasoned army to France to stem what appeared in the opening stages of the war like an irresistible onrush of the enemy upon Paris. And this she was able to do because she had been, for many

years, paying heavily for the army which was maintained for the benefit of India and for that of the Empire as a whole. She then offered to bear the peace charges of her forces sent out to the different fronts as if they continued to stay at home. The financial contribution of India calculated on this basis, was estimated to amount to about £ 11 million from the commencement of the war up to the 31st March, 1916, and was provisionally taken at a further £ 8 million for 1916–17. This does not take into account a considerable outlay in India which would not have fallen upon us but for the war. India also undertook to supply materials of all sorts, and the total value of her various supplies was calculated to come to about £ 48 million by the end of 1916–17. Certain people did not fail to represent these invaluable services of India as a profitable bargain and did not stop to reflect what inconvenience, embarrassment and hardship the sacrifice cost the people as well as the Government. Same idea of India's services in this direction may be conveyed by adverting to the adjustment which had to be constantly effected in our exchange and currency machinery to meet the strain imposed upon it.

The heavy disbursements made by the Government of India on behalf of His Majesty's Government had the effect of depleting our cash balances and inflating those of the Secretary of State who received payment in London. They

served to transfer to England funds which ordinarily would have been drawn by the Secretary of State by means of Council drafts. The total recoverable disbursements in 1915–16 amounted to more than £ 20 million, nearly £ 3 million out of which was due to the purchase of wheat the Indian Government undertook with a view to reducing the alarmingly high prices ruling in the country and also to supplying the needs of Great Britain where the wheat position had become acute. The demand on the Indian treasury balances was so heavy that it could not be met, and yet the Secretary of State's drawings were upon an unexpectedly large scale. It was estimated that those drawings would amount to £ 16½ million. Of this, £3·7 million was met from treasury balances as against £7·1 millions anticipated in the budget, and £7·5 millions through the Gold Standard Reserve. The remaining drawing, *viz.* £5·3 million, was taken against the Paper Currency Reserve. Ordinarily the amount thus drawn would have to be earmarked in London in gold; but to help the London money market by refraining from taking this course, and preventing gold from comlng here on private account, Government took power by an ordinance to enable the Secretary of State to invest in short term securities, sums which normally would have to be held in gold. Act V of 1915 had raised the limit of the invested portion of the Paper Currency Reserve from 14 to 20 crores of rupees, of which four crores could be in sterling securities. The object

of this measure was the strengthening of the monetary position of Government by placing six crores at its disposal. By an ordinance issued in January, 1916, while the total investments were retained at the limit of 20 crores, 10 crores out of the amount was allowed to be invested in sterling securities in England. The Paper Currency Act was further amended to give this ordinance the force of law in March, 1916. The amendment also allowed the Paper Currency Reserve to hold instead of gold a limited quantity of first class short-term sterling securities issued by His Majesty's Government, *e. g.* Treasury Bills, to a total amount not exceeding £ 4 million. This was virtually raising the limit of the invested portion of the reserve, though the investment was in securities which could be readily converted into gold when required. The earlier Act had already empowered Government, if it wanted to make additional investments in this country, to create Government paper *ad hoc* and to place it in the Reserve, thus placing additional resources at its disposal, to be used for the assistance of trade or for its own requirements. The one consideration uppermost in the mind of the Government in effecting the above adjustments was the duty of India to render all possible assistance to the Empire in the prosecution of the war, and its sense of duty was fully shared by the people. In whatever form service and co-operation were demanded, they were promptly and cheerfully given.

Chapter IV.

GROWING SACRIFICES OF INDIA.

THE outstanding feature of the financial developments in India which have been so far described, is the valuable service rendered by this country to the Empire in the prosecution of the war. The exchange crises which arose from time to time, the currency difficulties which had constantly to be faced, the high prices which ruled in the Indian market and inflicted great hardship upon the mass of the people, the heavier burden of taxation which had to be borne by the country, the irritating restrictions that were imposed upon varied economic activities and the disappointing measures of retrenchment and economy which the Government thought it necessary to adopt—though they were neither wise nor just—in connection with expenditure on schemes of urgent reforms, were all directly traceable to one cause, viz., India's sacrifices for the Empire. The issues for which the Allies were struggling and the special significance of the war for the British Empire had now come to be appreciated even by the masses in India, who were ready to co-operate with Government in order to bring the war to a speedy and victorious end. The Government of India was doing its duty manfully and was acting upon the only principle which should have guided it, viz., subordinating

every thing to the supreme issue of the moment, the winning of the war. To have succeeded in keeping the financial and the general administrative machinery smoothly working in the most taxing and perplexing pre-occupations of the war, was no mean achievement, and due credit must be given for this to the Finance Member and his colleagues as much as to the people who showed excellent temper and spirit while passing through the ordeal of hardship and sacrifice. In closing the budget debate on 23rd March, 1917, Lord Chelmsford remarked with reference to this ordeal which lay before the country:—"There will be a sacrifice, not of luxuries, not of the frills and trimmings of civilization, but a sacrifice in large measure of the necessities of ordered government, and one result must be arrested progress in education, in sanitation, in public works and kindred subjects which are in other countries the touchstone of civilised life."

No sacrifice could be too great which was required for the defence, for the very preservation of the existence of the Indian nation and of the British Empire, because this was really what the war meant. But by no stretch of the imagination could it have been said that the financial condition of India was so desperate that it rendered imperative the sacrifice of the progress of education, of sanitation and of national industries during the time of war. On the contrary, the financial

strength and elasticity of India was a subject of pride and admiration to our Finance Member, and the plea of war necessities coming from that quarter as justification for the arrest of the progress of beneficent schemes of advancement, could not fail to prove unconvincing to those who were keen in the matter. The position of India in this respect was peculiar. The representatives of the people, whose aspirations it was not possible for the officials to appreciate and whose enthusiasm it was not in the nature of things for them to share, have had no control over the executive Government. For years together they have been pressing for urgent reforms, but the pace of Government has been slow, much too slow. The consciousness of the people was quickened by the war and the sentiments it aroused all the world over. Problems of reconstruction were being discussed and schemes connected therewith were being taken up in hand in all countries. For the Government in India to tell the people under these circumstances that war conditions must leave things marking time and that it was impossible to finance projects of improvement, was extremely deplorable. The financial dispositions proposed for the year 1917–18 give point to this criticism, and we now turn to the budget arrangements for that year.

The revised estimates for 1916–17 had a surprise in store for the country. The total revenue was estimated at £96·7 million against the

£86·528 put down in the budget, an increase of more than £10 million; and in spite of the fact that the expenditure had exceeded the budget estimate by £3½ million it was expected that the year would close with a surplus of £7·2 million.

The huge increase in the estimated surplus will be seen from the following statement:—

[In millions of £.]

	Budget, 1916–17			Revised, 1916–17.		
	Imperial	Provincial.	Total.	Imperial	Provincial.	Total.
Revenue	55·925	30·603	86·528	64·803	31·951	96·754
Expenditure.	55·099	30·956	86·055	59·065	30·390	89·455
Surplus (+) or deficit (−)	+ ·826	− ·353	·473	+5·738	+1·561	+ 7·299

The railways yielded £4 million out of this large surplus and there were small increases in several of the other items of revenue. The monsoon and general economic conditions had turned out favourable, and though trade was hampered by the peculiar difficulties created by the war, the various sources of revenue had been more productive than anticipated. When the financial estimates and taxation proposals were under discussion in March, 1916, the Finance Member had

resisted all suggestions calculated to modify his anticipations and dispositions, and even now he was not prepared to admit that his caution had been misplaced, and defended it on the ground of the growing liabilities of Government. He decided to use the huge surplus realised in 1916–17 in paying off the emergency war debts, including the loan taken from the gold standard reserve, and to place the country in a position to undertake fresh financial obligations for purposes of the war. In expounding his financial forecast, Sir William Meyer lucidly described the operations which took place during 1916–17 in connection with the Secretary of State's drawing, the exchange and Government of India's disbursements in this country on behalf of His Majesty's Government, and the account he gave provided an instructive illustration of India's invaluable sacrifices for the Empire.

It had been calculated that the Government here could afford to let £22½ million of its treasury balances be transferred to England, £18·6 million of this being recovered in London and about £4 million being drawn by means of Council bills. What actually happened, however, was that the total amount actually transferred during the year 1916–17 rose to the unprecedented figure of £71½ million! The disbursements, the equivalent of which was recoverable in England, amounted to £38½ million and Council bills which had to be sold on

account of an acute trade demand were met here to the extent of £33 million ! , How was this feat performed? The treasury balances, augmented by the unexpected surplus, yielded £33 million; £19½ million represented new rupee currency manufactured out of silver purchased in England and £19 million was withdrawn from the Paper Currency Reserve and invested in London.

The above financial operations may be presented in a more convenient and interesting form thus :—

I

Budget Anticipation.

The Secretary of State's Requirements.	mill. £.	Sources of Receipt.	mill. £.
Ordinary Home charges and Capital outlay.	21·8	From balances.	1·3
Discharge of Debt.	2	Recoveries from His Majesty's Govt.	18·6
		Council bills.	3·9
Total.	23·8	Total.	23 8

II

How Things Turned Out.

		mill. £.
Recoverable War Expenditure in India.	...	38·5
Council Drawings	...	33
Total	...	71·5

III

How the Strain on India was Met.

		mill. £.
Treasury Balances	...	33·0
New Rupee Currency	...	19·5
Out of Paper Currency Reserve	...	19·0
Total	...	71·5

IV

How the Secretary of State disposed of his swollen Receipts.

		mill. £.
Ordinary Charges	...	21·7
Purchase of Silver	...	16·2
Investments on account of Paper Currency.		19·0
Investment on behalf of Gold Standard Reserve.		4.3
Discharge of Debt	...	10·3
Total	...	71·5

V

Recoverable Disbursement. £ 38·5 million.

Re-lent to the British Government through Investment in British Securities.

Paper Currency Reserve:	£ 19	million.
Gold Standard Reserve:	4·3	,,
Debt of Gold Standard Reserve, Repaid.	4·0	,,
Total.	27·3	

To appreciate the significance of these transactions, it must be borne in mind that the normal imports into India were restricted by reason of difficulties of transport and the reduction in the trade of Great Britain with this country, and we had to export, at the same time, large quantities of goods of national importance for the prosecution of the war. The large debt which thus England owed to India, as a result of the abnormally favourable trade balance, could not be paid

in gold which had to be conserved in London for the benefit of the Empire. Silver was imported for the coinage of rupees and it only partially liquidated the debt. The balance remaining to India's credit had to be lent in England and restrictions were imposed upon exports and the operations of Exchange banks. Our paper and rupee currency was steadily expanding and silver was being purchased at high prices. Sir William Meyer referred to these difficulties as "an essential service which India is rendering to the Empire in financing war expenditure abroad" and the inconveniences arising therefrom he characterised as "a war sacrifice which India has made for the Empire."

In view of the above facts one would have thought that no additional sacrifice would have been demanded of India, particularly in the form of an out and out war gift to Great Britain. The difficulties of India with respect to monetary stringency, disturbance of exchange, disbursements for His Majesty's Government and other matters described above were indeed bound to grow in the coming year with the continuance and intensification of the struggle with the enemy and measures had to be taken to meet them. Devices, similar to those adopted in 1916–17, would be necessary and would have to be supplemented by a big war loan to supply Government with the resources required to carry out its obligations imposed by the war. Few, however, thought that the remedy was to be

found in an unconditional war gift to England of the amount of £100 million. Apart from the serious inconveniences and hardships suffered by India, she had made a liberal contribution to the prosecution of the war in various ways. (1) Her net contribution in respect of the Expeditionary Forces was estimated to amount, to the close of 1917–18, to £15½ million. (2) Her net annual military expenditure, which was estimated at £20½ million for 1914–15, had risen to an estimated amount of £26 million for 1917–18. (3) The political situation in Persia had thrown upon India a burden of about £ 1¼ million from the commencement of the war upto March, 1918. (4) At the cost of serious trade restrictions and financial strain, India had put, since the beginning of the war, £ 46½ million into British war securities, £ 35 million out of this representing wholly war investments. And (5) India had resolved not to indent any more on the London loan market and had paid off her temporary war debt. These services and sacrifices of India did not, however, satisfy certain critics of Government, and they set up a clamour that it should bear the whole war expenditure of the Indian Expeditionary Force and float a big war loan for the purpose, or should, at any rate, hand over to His Majesty's Government, as India's gift, the proceeds of a large scale war loan.

The Government of India had long resisted these suggestions and protested strongly against

charges levelled at it for its alleged parsimony and lack of imperial patriotism. It had rightly contended that India had done enough and more ought not to be expected from her poverty. But apparently the attacks of hostile critics made it uneasy, and the financial position seemed to be propitious for a gift by India to His Majesty's Government. Government thought, in view of the altered circumstances, that the time had come when, in accordance with the wishes of the representatives of the people in the Supreme Legislative Council, India should directly bear a larger share of the cost of the war. * It was, therefore, proposed to make a special contribution of £100 million to His Majesty's Government and to increase the Indian Government's resources for meeting the recurring liabilities connected therewith to the extent of £ 6 million a year. The proceeds of a war loan to be floated were to be immediately handed over and the balance was to be liquidated by taking over a portion of the British war debt. That Indian sentiment earnestly desired to help in the prosecution of the war and would favour a direct financial contribution to His Majesty's Government, to the full measure of the country's capacity, was undisputed. And the Government was only doing its duty in making reasonable arrangements for a decent contribution,

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*Sir William Meyer's speech introducing the Financial Statement for 1917-18, paragraphs 38 to 50.

when the situation seemed favourable for carrying out the popular desire. What is not equally clear is the inability of Government to meet popular wishes with reference to the State's liberal assistance in the rapid promotion of the extension of mass education and other urgent national reforms. Granting that, to be decent and worthy of being made, the war contribution could not be less than £ 100 million, one cannot understand why a crore or two could not be spared for the promotion of national efficiency.

The Government of India did indeed provide for a special recurring grant of £200,000 a year to be allotted for improving the training and pay of teachers in primary and secondary schools. In making this grant, the Finance Member explained that it was an earnest of Government's intention to make more liberal provision for education when peace and prosperity returned. It was a welcome grant, but it only served to remind the people how slowly the country was moving when acceleration of speed was the supreme need of the hour. The object for which the grant was made was one that evoked universal appreciation, as without trained and well-paid teachers efficiency in education was impossible. But what about the diffusion of education and the dissipation of the heavy clouds of illiteracy which hung over the masses and darkened their life? The Government had no scheme of popular education which was to be finan-

ced with steadily increasing grants, and educational developments were left to times of peace and prosperity. The war had not taught Government the lessons which were taken to heart elsewhere. Not that schemes were not proposed to Government, though none were evolved by it. Mr. Sarma's resolution in this behalf was defeated, and Mr. Sastri's resolution asking for an additional grant of 30 lakhs of rupees for extension of primary education was not accepted. Sir William Meyer contented himself with merely pointing out that expenditure on education proposed for 1917–18 was higher than the sum spent in 1913–14 by a little less than half a million.

Mr. Sastri asked in despair: "What is the destiny you intend for the people of this country? Are they always to be in a low state of vitality without even the rudiments of education, or are they to be worked up to a state of national efficiency such as we find in the continent of Europe among all the nations there?" The attitude of the Government of the United Kingdom towards the educational problem in that country offers a marked contrast with the position of easy self-congratulation and complacency taken up by the Indian Government. About the time Sir William Meyer was stating to the Supreme Legislative Council why more funds could not be spared for the extension of education and no schemes of educational progress could be formulated in India, the Right

Honourable Mr. H. Fisher, President, Board of Education in England, was evolving far-reaching and extensive projects of national education in Great Britain. The British people and the British Government have correctly appreciated the value of adopting a comprehensive scheme of sound education for national efficiency and welfare. In asking for an additional grant of more than £3¾ million for educational improvement towards the middle of 1917, Mr. Fisher described in the House of Commons in glowing terms what part education had played in giving England a magnificent army to fight for liberty and right. He laid stress upon two things: first, that the Government was earnest in dealing with the problem of education and second, that it was doing it in a systematic and comprehensive manner. Mr. Fisher said :—

> "The mere fact that in the middle of a great war, when the finances of this country are strained to the uttermost, the Chancellor of the Exchequer is willing to find nearly four million of additional money for the development of public education is, I think, a sufficient indication that the Government means business. As regards the second point, I can assure the House that all the problems of public education are being considered iu relation to one another, and that though in order of time some reforms must necessarily precede others, they are not being dealt with in a fragmentary and opportunist manner."

We wish the Government of India had caught some of the enthusiasm of Mr. Fisher, though the exhortations of the late Mr. Gokhale and other Indian leaders had left it cold.

To return to Sir William Meyer's proposals to raise the additional £3 million required to equilibrate his finances. As if to emphasise the official view that the complaint of the people against the enhancement of the salt duty in 1916 had no justification, he repeated that the salt tax was an admirable impost to reach the poorer classes, but ruled that financial expedient out of account owing to the abnormally high price of the commodity. Similarly, he passed over agricultural incomes as a possible source of additional revenue as undesirable at the moment but reserved it for some future occasion, when a resort to it might become necessary. An excess profits tax was not regarded as feasible owing to the want of proper machinery for assessing it and to its temporary character. The objects selected for additional taxation were, therefore, (1) incomes in excess of Rs. 50,000, which were to pay, in addition to the ordinary income tax, a super-tax varying from 1 anna per rupee for incomes between Rs. 50,000 and 1 lakh to annas 3 for incomes over 2½ lakhs, (2) jute, the export duty on which was enhanced, (3) imported cotton goods, the duty on which was raised from 3½ to 7½ per cent., and (4) railway goods traffic, which was subjected to a surcharge. The total yield from these taxes was calculated to be about £3⅓ million. The enhancement of the import duty on cotton piece goods was at last sanctioned by His Majesty's Government in order to enable India to meet

the extra burden thrown upon her by the interest charges in connection with the war contribution, though not as an act of justice to this country. The plea, however, served, for the time, to silence Lancashire opposition.

The following tables exhibit the position of Imperial finances according to the revised estimate for 1916–17, the budget estimate for 1917-18 without additional taxation and additional expenditure due to the war gift and the estimate for the latter year with that taxation and expenditure included:—

I

Revised and Budget Estimate of the Imperial Government.

[In millions of £.]

	Revised, 1916–17.	Budget, 1917–18.	Budget, 1917–18.
		Without additional taxation.	With additional taxation.
Revenue	64·80	63 213	66·563
Expenditure	59·065	60·433	66·433
Surplus	+ 5·738	+ 2·780	+ ·130

II

*Budget 1917–18.**

[In millions of £.]

	Revised, 1916–17.			Budget, 1917–18.		
	Imperial.	Provincial.	Total.	Imperial	Provincial.	Total
Revenue	64·883	31·951	96·834	66·563	32·288	98·851
Expenditure.	59·065	30·390	89·455	66·433	32·386	98·819
Surplus (+) or deficit (−)	+ 5·818	+ 1·561	+ 7·379	+ ·130	− ·098	+ ·032

* The reader must have noticed that the figures for the revised and budget estimates we have given in different places in this and other chapters do not agree even when they are for the same year. The reason is that the revised and budget estimates which the Finance Member supplies at the end of March to the Supreme Legislative Council naturally vary from those presented by him in his financial statement at he beginning of that month, owing to the fact that the former take account of the changes occurring in the interval and are therefore up-to-date. We have not, however, distinguished these figures because the variations are extremely small and do not in any way, affect the discussion. On the contrary, it ia more convenient and proper to take the figures given in the financial statement because it is on them that the finansial proposals of the Finance Member are based.

Chapter V.

THE CALL AND THE RESPONSE.

THE armistice, which was so joyfully welcomed throughout the world, came with surprising suddenness. Only a few months before the cessation of hostilities in the middle of November the belligerents had apparently been convinced that they would have to continue the war into the succeeding year, and we in India, had girded up our loins to resist the enemy if he attempted any mischief on and near our frontiers. Not only was the collapse of Germany not regarded as imminent, but the Allies were preparing to parry the harder blows the enemy seemed to be contemplating. It was certainly not a mere convention when Sir William said in introducing the financial statement for 1918-19:—"We must again, unfortunately, assume that the war will continue throughout the coming year. That means a continuance, in probably aggravated form, of some of the special problems which I shall presently have to describe to the Council, and as I have said on previous occasions, the constantly changing circumstances of the war materially add to our difficulties in estimating." Very soon after this, the danger of war spreading into Contral and Eastern Asia assumed a clearer form and larger proportions and there came the trumpet call of the Premier

asking the Princes and people of India to make adequate preparations to face the advancing storm. In the earlier months of the year, however, there was little indication of the clouds that were to cast their ominous shadows upon the landscape and threaten a thunderstorm ; nor could one predict that the tempest, when it developed, would be controlled and that a calm would be established with remarkable ease and completeness.

How the hues playing upon the war landscape shifted from time to time, how the gloom momentarily thickened and was later relieved by a few rays of hope and how clouds lifted and the full blaze of victory dramatically poured upon the scene, may be seen from the following facts. In his gracious message to the Delhi War Conference held in April, His Majesty the King-Emperor stated :—"Recent events have made the struggle on the Western front more bitter and more intense. At the same time the position in the East is menaced by disturbances in Asia instigated by the enemy. It is of ever-increasing importance that the operations of our armies in Egypt, Palestine and Mesopotamia should be largely sustained from India. I look confidently to the deliberations of the Conference to promote a spirit of unity, and concentration of purpose and activity and a cheerful acceptance of sacrifices without which no high object, no lasting victory can be achieved." In the Viceroy's message to the people of India, issued on 4th August, an appeal was made in the name of the

King-Emperor for India's 'fullest and most ungrudging help through the final stages of the great war.' The clouds were slowly rolling away and exactly a month after this appeal, Lord Chelmsford, addressing the Supreme Legislative Council, on 4th September, observed:—" The shadows seem to be slowly lifting. We can almost fancy we can see the first faint flicker of victorious peace dawning on the horizon. From March to July, Germany put forth her strength in a great effort to separate the French and British Armies, to capture Paris, to force her way to the Channel ports—before the full flow of America's numbers should finally rob her of all hope of victory. She put forth her whole strength and failed; and with her failure came a dramatic change..... Before they could recover from the blow the Allies struck again and yet again. And ever since, the Germans have been receding seeking in vain to husband their fast diminishing man-power. Nor can they look for help from Austria or Turkey or Bulgaria for all three are sorely pressed. The fifth year of the war has thus been ushered in full of high hopes for the Allies; but the end is not yet." This cautious tone was natural under the circumstances. The defeat and steady retreat of the enemy, however, soon became a rout and ended in a complete collapse in the course of two months.

The anxiety of the Finance Member in forecasting the financial developments during the year 1918-19, had reference only to the growing

complexity and difficulty involved in meeting the call made upon India, for assistance in the prosecution of the war in the matter of disbursements on behalf of His Majesty's Government in this country, the expansion of currency and the rise of exchange. The revenue position was eminently satisfactory and was calculated to yield a substantial surplus at the end of the year even after providing for a considerable increase in expenditure. It had been calculated that the total revenue, Imperial and Provincial, would amount to £ 98'8 and the expenditure would almost equal that figure. But the anticipated revenue now exceeded £ 110 million and the expenditure £ 102 million, leaving a surplus of £8 million. Nearly half of the total increase in revenue was due to railways which broke the record in respect of receipts, and exchange, salt, income-tax and customs also contributed largely to the surplus. Military charges, however, absorbed £ 4'6 million out of the increase in revenue and political expenditure in Persia and interest on debt showed increases. Other noteworthy features of the year were the unpreceednted success of the war loan which was cautiously estimated to yield about £ 10 million, but actually brought in £ 36'1 million, the issue of Treasury bills, remittance operations which had to be carried out on a huge scale and the currency and exchange embarrassments which had to be faced. The experiment of the cash certificates was a gratifying success, having yielded £ 6'6 mil-

lion, out of which only about £ 300,000 was found by withdrawals from existing postal accounts. Though the certificates were repayable on demand, of course, at some sacrifice of interest, withdrawals were estimated not to exceed £ 600,000 The nexus thus established between the Government and the small investor, was welcome and hopeful. Among other means employed to secure temporary financial assistance, the Government in England issues short-term Treasury Bills in the slack revenue season and repays them as revenue comes in. The Government of India adopted this system to meet the drain on its resources caused by its heavy payments for His Majesty's Government and the Secretary of State's Council bills, and it was calculated that a total of £ 30 million would be raised in this way between the middle of October 1917 and the end of March, 1918.

Here is the estimate of Revenue and Expenditure for 1918-19 :—

Budget Estimate for 1918-19.

In millions of £.

	Revised, 1917-18.			Budget, 1918-19.		
	Imperial.	Provincial.	Total.	Imperial.	Provincial.	Total.
Revenue	76·677	33·724	110·401	73·999	34·348	108·347
Expenditure	70·852	31·468	102·320	71·708	34·443	106·151
Surplus (+) or Deficit (—)	+5·825	+2·256	+8·081	+2·291	- ·095	+2·196

The budget anticipations and provisions with respect to the remittances to England, war disbursements and Council drawings, had now become merely formal and nominal. The Finance Member had little idea as to how things would turn and gave only tentative figures based upon the incomplete and imperfect data he had before him. As a rule, his calculations with respect to Council drawings and remittances were exceeded, and financial operations were carried out in response to the needs of His Majesty's Government and the Secretary of State as they arose. The war disbursements recoverable in London would grow and had to be made out of balances augmented by Imperial and Provincial surpluses and the receipts on account of Treasury Bills and the War Loan. This was equivalent to the transfer of enormous funds to London which accumulated in the hands of the Secretary of State. The supply of silver became restricted and its rising price put a limit upon its import. The Secretary of State, on his side, had to invest the funds accumulating with him in British Treasury Bills, on account of the Paper Currency Reserve, the limit of the invested portion of which had to be steadily raised. An amount equivalent to the war loans obtained in this country was deducted from the payments His Majesty's Government had to make to the Secretary of State, as part liquidation of India's obligation with respect to the gift of £ 100 million. The main interest of the story of

Indian finance in the last two years of the war, in particular, centres in the adjustment and manipulation of the remittance machinery; and the operations of the year 1917–18, are not less instructive than those of the preceding year, already described.

Thus it was estimated in the budget for 1917-18 that our repayable outlay would amount to £39 million, and it was to be met to the extent of £24½ million from revenue, of £ 10 million from the proceeds of the war loan and of £4 million through purchase of silver by the Secretary of State who was to finance himself for his ordinary requirements from the recoveries he obtained from the War Office. The amount of Council drawings could not be estimated, depending upon silver purchases and further investments from the Paper Currency Reserve. Now compare these calculations with the actuals. The repayable outlay reached the high figure of £ 66 million. The Secretary of State's drawings assumed equally large proportions, amounting to about £ 35 million. There was further the outlay for the purchase of tea for the War Office in Ceylon and for the payments of money orders issued by foreign countries on India, the latter alone amounting to £5·3 million. The Government of India had also to provide a sum of 2·7 million in this country in credits to the Federal Reserve Bank of New York for the benefit of American importers of jute and other Indian articles required in connection with the

war. This amount was to be recovered by the Secretary of State in London and the transaction was equivalent to his drawing of it by means of Council bills. The net result of all this was that India's special liabilities in 1917–18 were calculated to reach about £ 111 million, which was about three and a half times as much as the Secretary of of State's Council drawings in the last year of peace, 1913–14, and half as much again as our total Imperial revenue.

These heavy liabilities were met from the proceeds of the war loan and cash certificates (£ 34½ million), revenue, including the unexpected improvement in receipts, (£ 31½ million), the issue of Treasury Bills, (£ 30 million), fresh coinage of rupees or bullion awaiting coinage (£13⅓ million), profits from rupee coinage, (£1·4 million) and additional investments in London on behalf of the Paper Currency Reserve, which set free rupees in India, (£ 8·7 million). The funds available in this country thus even exceeded the remittance liabilities. The whole amount of funds transferred to London could not be utilized by the Secretary of State and a balance of £ 20 million was left after the necessary investments and payments had been made there, and it was decided to invest the £ 20 million in British Treasury Bills as a kind of reserve against our liabilities in connection with the temporary debt which would be repayable in the course of the next few years. This investment was calculated to help the British Government in

providing funds for the war. Adding this investment to the investment from the Paper Currency and Gold Standard Reserves, we have a total of £ 32 million of fresh money put into the British Treasury Bills during 1917–18, and if there is added to it the £ 35 million invested during the preceding two years, the total rises to £ 67 million, which is exclusive of the special war contribution.

The ways and means position is presented in the following statements :—

Liabilities	mill. £.	Assets	mill. £.
Recoverable disbursements	66·0	War Loan, including cash certificates	34·5
Council bill drawings	34·8	From Revenue including surplus	31·5
Foreign money orders on India	5·3	Treasury Bills &c.	30·0
Miscellaneous	2·0	Fresh coinage of silver	13·3
		Profits on rupee coinage	1·4
	108·1	Investment on behalf of Paper currency Reserve	8·7
Credits for Federal Reserve Bank of New York	2.7		
Grand Total	110·8	Total	119·4

The following sources would go to accumulate large funds in the hands of the Secretary of State :—

Resources in England.

		Millions of £.
(1)	Receipts from council bills &c.	35·3
(2)	Recoveries from the War office &c.	65·0
(3)	Special recoveries in respect of disbursements &c.	2·1
(4)	Increased receipts from foreign money orders	5·3
(5)	Subscriptions to Indian War Loan in London	1·1
	Total ...	108·8

The funds were laid out thus :—

Disbursements in England.

		millions of £.
(1)	Ordinary Home Charges &c.	25·0
(2)	Purchase of silver	13 5
(3)	Payments to Treasury of proceeds of Indian War Loan	35·1
(4)	Investment on behalf of Paper Currency Reserve	8·7
(5)	Investment on behalf of Gold Standard Reserve	1·4
(6)	Special investment in Treasury Bills	20·0
(7)	Discharge of debt	2·1
(8)	Miscellaneous	0·4
	Total ...	106·2

Before proceeding further, we shall indicate very briefly the chain of the difficulties which the Government of India had to overcome and the series of measures that were taken by them for the purpose. (1) Before the outbreak of the war, the normal favourable trade balance of India was made good partly by council drawings which were used by the Secretary of State for his home charges, for buying silver and transferring to London funds on behalf of the Reserves and partly by the import of the precious metals by private agency. During the time of war, the repayments by His Majesty's Government were large enough to cover twice over the normal expenditure in London. (2) Private imports of the precious metals became impossible as it was undesirable to drain the gold stock of London in the interests of the Empire. (3) Yet the trade demand for remittance to this country was heavy owing to the contraction of imports and the expansion of

exports of national importance and it had to be met by the sale of council bills. (4) These drafts were, therefore, sold solely for the convenience of trade and not for the needs of the Secretary of State. (5) The Government of India found it extremely difficult to provide funds in this country for war disbursements and also for paying the bills. (6) Heavier taxation, issue of treasury bills and war loans were the means adopted for raising the funds. (7) A large issue of currency became necessary and the rising prices of Indian commodities accentuated the difficulties by increasing our trade balance and by creating a further demand for the medium of exchange. (8) There are obvious limits to the expansion of paper currency, and still the total active note circulation had gone up, by the beginning of 1918, to 82 crores against 50 crores before the war. Power was taken from time to time to raise the amount of the Paper Currency Reserve that may be invested. (9) Concurrently with the augmented note issue, there was a steady expansion of the rupee currency. The imports of purchased silver during 1916-17 and 1917-18 amounted to no less than £ 29 million. The net issues of rupees to the public in 1916-17 came to 35 crores, and during the eleven months of 1917-18, to an addiiional 24 crores besides 8 crores of sovereigns. This means a total issue of 67 crores during these two years. (10) A contraction of imports led to large absorption of currency which was checked only by the subscription to war loans. (11) The large transfers

of funds to London were invested there and thus practically lent to the British Government for the prosecution of the war. (12) The demand for silver on the part of India and of other countries at the same time, pushed up its price to the extent of materially altering the old relation between the intrinsic and the face value of the rupee. The rise of the bullion value of the rupee above its legal value necessitated legislation prohibiting the melting or the export of the silver coins which would no longer be tokens. Such prohibitory legislation was not, however, enough. If the Secretary of State continued to sell rupees at the old rate of exchange after the abnormal rise in the price of silver, the transaction would result in serious loss to India, as he would be buying silver dear and selling it cheaper in the form of rupee currency. And, therefore, the rate of exchange was raised by the Secretary of State first to 17d. and afterwards to 18d. so as to obviate the loss entailed by the rise of silver.

Putting up of the exchange appeared to the Government as the only safeguard to prevent the loss resulting from dearness of silver. What was the alternative? The loss could have been borne by Government and put down to the Gold Standard Reserve or made good from ordinary revenue. The Gold Exchange Standard system prevailing in India entailed upon the Government the responsibility to provide gold for remittance abroad when the exchange went down to the

gold export point and to supply rupees when it rose above the gold import point. The latter contingency had hardly ever been contemplated during the long period of India's currency troubles and later when the sole anxiety of Government was concentrated upon devising successful measures to prevent exchange going below the fixed rate. Silver was then a discredited and discarded metal. The war gave it a chance and it attempted to overthrow the empire, gold had established in the currency world. Sir William Meyer disowned all responsibility on the part of Government, arising out of the high price of silver and declined to draw upon either the gold reserve or the general revenues for the purpose of maintaining the fixed exchange value of the rupee. It is true that Government would have been involved in an indefinite and unlimited liability if it had shouldered the loss and the country would have suffered through that loss. A higher exchange rate, again, saved India a large amount of money and she gained considerably on her foreign remittances. But against this gain must be set the loss which fell upon exporters and through them, on the country in general. Sir William pointed out in connection with this that a country like India which has large payments to make abroad benefited by a rise in exchange, but ignored the fact that she likewise lost considerably upon the exports of her commodities which fetched fewer rupees for a stated amount of sterling. The only consolation which he could really throw out was that, as it

was, the prices in India were high and exporters were not likely, on the whole, to lose much and the further fact that the exchange position in other countries was much worse than in India whose currency system had borne the strain of the war most creditably. The banks, merchants and the public bowed to the inevitable and co-operated with Government in a spirit of service and sacrifice.

There was little that was noteworthy about the budget for 1918–19. The total revenue, Imperial and Provincial, was taken at £108·3 and the expenditure at £106·1 as against £110·4 and £102·3 respectively in the revised estimate for 1917–18. Even then the surplus was calculated to be more than £2 million. The Provincial Governments were complimented upon the restraint they had exercised upon their expenditure and were exhorted to continue the same policy in the ensuing year. As in previous years, members of the Viceroy's Council urged the Finance Member to make larger grants to Provincial Governments for the progress of education and sanitation. Sir William ultimately consented to grant Rs. 30 lakhs a year for technical education. It was contended that education and sanitation were provincial services for the promotion of which the Government of India was not directly responsible. We need not do more than notice in passing the ways and means and currency position as it was expected to develop in 1918–19. Government proposed to

float a loan, as in the previous year,* which was calculated to yield £ 20 million and to issue Treasury bills to the extent of £27 million. Notes of the small denominations of Re. 1 and Rs. 2½ were issued to augment the currency. It was likewise decided to start a gold mint in Bombay. The total remittance liabilities in 1918–19 were calculated at £ 78 million, not including Council drawings, which were an uncertain factor. The total note circulation had risen to 105 crores, about 56 per cent., of which was invested. Power was taken further to raise the limit of investment by about 24 crores. The circulation rose, in August, to 130 crores and in December, to 140 crores, the invested portion of the Reserve being 85 crores in the former and the limit being raised to about 100 crores in the latter month.

**The War Loan of 1917–18.*

		Million £.
Main Loan		26·6
Postal section		2·9
Cash certificates		6·6
	Total ...	36·1

Different Forms of the Loan.

			Million £.
5	Per cent. long term Loan of 1929–47		8·3
5½	Per cent. 3 year War Bonds		13·2
5½	Per cent. 5 year War Bonds		8·0
		Total ...	29·5

We shall close this account of financial and currency developments with a few brief observations on one of the most important measures taken by Government in 1918-19. At the War Conference held at Delhi in April, 1918, for discussing the steps which were to be taken to organize the man power and the material strength of India in order to defend the country against the threatened march of the enemy towards our frontiers, the question of the additional financial assistance to be rendered to the Empire, was definitely mooted. Having taken some time to evolve a scheme in that behalf, Government adopted the extraordinary procedure of throwing the responsibility of rejecting it on the non-official members of the Supreme Legislative Council. The number of Indian troops, in India and Overseas, on 1st April, 1918, was about 4,90,000 as against 1,60,000 before the war. It was then decided to raise 5,00,000 additional combatants, commencing with 1st June. Moving his resolution* in the Viceregal Council on 9th September, Sir William Meyer explained that his scheme contemplated taking over, as from 1st April, the normal cost of 2,00,000 men (in addition to the 1,60,000 troops whose cost was being already borne by India) and 1,00,000 men more as from 1st April, 1919. Assuming that the war would end with 31st March, 1920,

* The resolution was as follows:—"That this Council recognises that the prolongation of the war justifies India's taking a larger share than she does at present in respect of the cost of the military forces raised, or to be raised, in this country."

and the subsequent year would be one of demobilisation, the Finance Member calculated that the additional expenditure in the first year would be £ 8·8 million, in the second year, £ 13·5 million, and in the last, £6·8 million. To this were to be added the non-effective and other charges undertaken and the total figures were worked out thus:—For 1918–19, £12·17 million, for 1919-20, £14·7 million and for 1920–21, £ 7·7 million, and with the addition of £ 10 million for pension charges, an aggregate amount of £ 45 million. To the agreeable surprise of the people, Government did not propose to levy additional taxation for financing the scheme in 1918–19, the £ 12·7 million being met out of existing resources which were expected to be sufficiently large; and whatever additional taxation was imposed in the next year, was to be adjusted so as to fall largely upon the well-to-do and especially on those who had made large profits from circumstances arising out of the war.

Though the assumption by India of additional financial responsibility, had been hinted at, as pointed out by Sir William Meyer, his scheme came as a surprise upon the Council and the people outside. While the burden was heavy to poor India, it was not likely to afford any substantial relief to Great Britain. The executive Government had taken the unusual course of leaving the decision of such a momentous question to the non-official portion of the Council and placed the members in an extremely awkward situation.

They were given little time to consider the scheme in all its aspects and would be taking a tremendous responsibility if they rejected it. What the Empire required of India was a larger contribution of man power and supplies of war material and food stuffs. This she was liberally giving and a further contribution of £ 45 million was not absolutely necessary. If a gift had to be made, it could have been made out of India's surpluses, accumulating after a reasonable provision had been made for the urgent needs of reform and progress. No one objected to a war profits or excess profits tax. Such a tax should indeed have been imposed earlier, and we have already expressed the view that sufficient attention had not been paid to the problem of educational and economic development and taxation therefor. It was not at all a question of India's desire and readiness to help the Empire in the vigorous prosecution of the war. These had never been doubted and had been substantially proved but the need and the urgency of the additional financial contribution had not been established. The non-official members, however, passed Sir William's resolution by a large majority, overawed perhaps by the onerous responsibility thrown upon them and through the sense that there was no alternative left to them under the circumstances.

Chapter VI.

RETROSPECT AND PROSPECT.

THOUGH hostilities have now happily ceased and a definite and final peace is not very distant, the effect of war conditions will continue to be felt for a long time to come. The process of demobilization, restoration and recuperation will be slow and the financial burdens of the war, though materially reduced in dimensions, will still be large. We have brought down the history of India's war finance, in the preceding chapters, to the conclusion of the armistice, and before discussing immediate prospects, we shall briefly review the situation as it developed from stage to stage, and indicate its salient features. Sir William Meyer himself took such a retrospect at the close of his speech made in presenting his last financial statement and gave a short summary of the events which had marked his term of office. It will be convenient to follow him through his review so as to notice what the Finance Member himself considered as his contribution to the prosecution of the great war and to the country's progress during his stewardship. As we have already remarked in the introductory chapter, Sir William proved himself to be a skilful mechanic who manipulated the machinery in his charge with resourcefulness when it threatened to break down under the

strain of war conditions. But he failed to display any originality of conception, courage and resolution in carrying out new projects. All national reform requires financing, but Sir William's machinery of finance was not worked so as to promote schemes of progress. He kept it going in war time —and for that he deserves to be complimented—but that is all that can be said in praise of his financial administration.

The art of the finance minister is three-fold. First, he must be able to supply funds required for the efficient discharge of the functions of the Government of which he is a member; second, that he must raise these funds from the most productive sources of revenue in the most equitable manner; and third, he must strengthen and temper his financial tools in such a way that they will do their work effectively. It is necessary to apply these tests to Indian finance as it developed during war time. Sir William started on his career with the hope of being able, before he laid down office, to solve three problems. The first of these arose out of the periodical monetary stringency which characterised the busy trade season in India, and it was to be solved by the policy of Government making loans out of its balances to the Presidency Banks during the busy months. The second object in view was the expansion of the note circulation, and the third was the prosecution of a vigorous programme of capital expenditure on

railways and irrigation and the consequent indispensable condition of a courageous policy of extensive borrowing in this country. Without minimising the importance of these reforms, we may point to the total absence in this programme, of even a reference to the need of finding funds for expenditure on educational, economic, and social advancement of the people. Nor is the Finance Member anxious to improve his system of taxation so as to make it more productive and equitable. He has his heart set only upon what, after all, is a subordinate part of his art. Sir William should have known that the leaders of the people had been clamouring for funds to finance schemes of educational expansion and economic and social reform, and that he was expected to attempt to devise suitable means for securing this all-important object. The want of funds had frequently been pleaded in justification of the slowness of progress. And yet while solicitude is shown for a vigorous railway programme, a courageous policy in favour of finance for social and economic advancement is not even hinted at and finds no place among the aims placed before himself by Sir William Meyer.

Among the achievements of the Finance Member are mentioned the success of the measures taken to relieve monetary stringency by a more liberal utilization of state funds with the co-operation of Presidency Banks, the satisfactory public

response in the matter of the war loans, the expansion of paper currency, the gross circulation of which had risen on 1st February, 1918 to £ 70 million, the issue of small notes of Rs. 2½ and Re. 1, the increase of the invested portion of the Paper Currency Reserve from £ 9·3 million in 1914 to £ 41 million, and India's reliance on her own market for capital borrowings, £ 46 million having been raised in this country in the four years ending 1917–18 against £ 5·9 similarly raised during the four years ending 1913–14. Sir William regretted that the provision for capital expenditure had substantially decreased, and there was a set-back here instead of progress, and wished better luck to his successor, mentioning, at the same time, the investment of £ 20 million in British Treasury Bills made in view of the future demands on behalf of railways. The innovations of the postal section of the war loans and the cash certificates had proved eminently fruitful, and Government had succeeded in effectively getting into touch with the small investors who had lent to the State out of current savings and hoards as much as £ 10 million in three years through the Post Office.

There were three well-marked stages in the history of India's war finance. The first stage opened with the shock which the out-break of the conflict dealt to currency and trade and to public confidence in India. There were heavy withdrawals of postal

savings banks deposits, and a panicky demand for encashment of currency notes and for sterling remittances to London. Sterling drafts to the extent of £ 8¾ million had to be sold between August 1914 and January 1915 to maintain the fixed gold value of the rupee and £ 14 million of temporary debt had to be incurred. Then followed the second stage when public confidence was restored and the consolidation and conservation of Indian resources was undertaken. Additional taxation was not regarded as wise under the circumstances and retrenchment was resorted to in order to keep off from the London market. The third stage was reached when trade revived owing to an increased demand for Indian commodities for war purposes, and in the budget for 1916-17 additional taxation was proposed for the first time after the outbreak of the war. The import tariff was revised save as regards piece goods, export duties were imposed on jute and tea, the salt duty was enhanced, and the income tax was raised and graduated. The temporary debt was, in the mean while, paid off and the London money market was not drawn upon. Indian finance now became more confident and bold and met all the demands which were made upon it by war conditions and by the resolution to help the Empire at all costs, to the fullest extent. A special capital contribution of £100 million was made to His Majesty's Government towards the cost of the war, and to defray the

charges due to the interest on this sum, additional taxation was imposed.

Since the out-break of the war the Imperial revenue receipts had increased by £22 million, out of which £ 9½ million was due to additional taxation and £ 5¼ was contributed by railways. The Imperial expenditure had likewise increased and was £19 million higher than in 1913-14. Out of this, £9 million was due to increased military charges and £ 6 to interest and sinking fund charges on the war contribution. To this must be added the new burden of the military charges undertaken, which was estimated to amount to £ 12 million during 1918-19, but the calculations about which have probably been disturbed by the sudden cessation of hostilities. In the course of the third stage of war finance, the Government of India was embarrassed chiefly by the large disbursements it was called upon to make on behalf of His Majesty's Government and the provision of funds needed for this purpose in this country. Apart from the £ 100 million of the war contribution, more than £ 100 million will soon have been transferred to London and invested there on behalf of the different reserves. India's financial assistance to the Empire meant higher taxation, prevalence of higher prices, the expansion of rupee and paper currency, the transfer of funds to London, increased public debt, curtailment of expenditure on public works and the retardation of reforms:

Looking back upon the troubled waters over which he had voyaged, Sir William Meyer said :—" But I have done my best to serve India in these troublous times ; and I think I can claim that her interests have not suffered at my hands ; that the difficulties which beset us have been adequately met ; that our financial structure has well withstood the storms which have beaten upon us; and that efforts have been successfully made to strengthen its walls and foundations."

One's sympathies would naturally go out to a Finance Minister whose lot was cast in times of the most intense anxiety, and one would not like to quarrel with the account Sir William has given of his own stewardship. But we cannot help feeling the absence of a single allusion in his summary to the vital needs of India, to moral and material progress, to the aspirations of the people and their insistent demands in that behalf on the Finance Member. It was not his ambition to find means for financing schemes of reform, and there is no expression of regret that he had not been able to meet the wishes of the representatives of the people in the Vice-regal council. He had not a word to say about the impending constitutional reforms which would involve important changes in the financial machinery of India, nor had he any inspiring allusion to make to the banking, currency and industrial developments in post-war times. This shows the wide gulf fixed between the official attitude on the

problems of progress and the popular earnestness about them. The official is wrapped up in his routine and says 'this is enough for my time.' He does not look ahead and is content if his day to day work goes on smoothly. We do not wish to judge Sir William harshly and are prepared to set down his faults to the system under which he worked and of which he was the product. But then this means that he was not above the average and only displayed the qualities of an expert who does not look beyond his job. Sir William could have found the money that was required to keep up and even to accelerate progress of the country. He could have allowed the Provincial Governments to draw upon their balances and to spend them on their schemes of development. He could have made larger grants to them and supplied funds for other useful purposes. Additional taxation could have been imposed earlier and more could have been extracted from the huge war profits which were being made. Schemes of social and material development could have been formulated and a beginning could have been made with them. Sir William was certainly firm in carrying out the particular projects he had formed and the way in which he effectively met the opposition raised against his policy in connection with foreign exchange, currency and taxation, showed the toughness of the man convinced of the wisdom of his measures. If only this firmness and resourcefulness had been direct-

ed also to the initiation of reforms desired by the people and to the satisfaction of their natural and legitimate aspirations!

Sir James Meston has not a clean slate to write upon. When his predecessor entered upon his career of Finance Member, he complained only that he would have no surpluses to distribute as liberal grants to the Provinces, and had no idea that the calamity of the war would soon overtake him. Happily, Sir James has to navigate in calm waters but his ship suffers from the effects of the storm through which it has emerged. Though peace is in sight, the war account will not yet be closed for a long time to come. On the conclusion of the armistice, recruiting was stopped and the additional military expenditure undertaken in September, will be materially reduced. But the process of demobilization will be slow and a return to normal conditions will take time. This is true of readjustment in every department and its progress will have to be carefully watched. Very soon after Sir James became Finance Member, hostilities ceased and war finance assumed the aspect of the transitional period standing midway between war and peace. This period will still continue to show some of the features of war times and will slowly broaden and soften into a time of normal conditions. The restrictions upon trade and other matters necessitated by the war, will be steadily relaxed and removed and all

emergency legislation and regulation must be reconsidered. Now that the war is over, people expect that there will remain nothing that will remind them of the struggle, and that life will become smooth sailing.

That this cannot take place is seen from the fact that the very first important question Sir James Meston had to tackle was that relating to taxation. The legacy of an excess profits tax was left to him by his predecessor along with that of additional military expenditure, and though the latter was reduced owing to the conclusion of the armistice, the need of the former did not apparently disappear. A chorus of disapproval has been set up all over the country by the mercantile and manufacturing classes, of the Finance Member's resolution to proceed with the imposition of the excess profits tax, and the bill has been attacked as much on the ground of principle as on that of details. It is contended that it was a temporary war measure, and in any case, as its proceeds were not necessary for the current year, the war having ceased, no case can be made out for the imposition of the new tax. Those who will be subjected to the impost, have suffered and will suffer heavy losses on account of the sudden cessation of hostilities and the consequent collapse of prices and if an attempt is made to extract money from them, it will have a seriously detrimental effect upon the industries and trade of the country precisely at a

time when these ought to receive every encouragement and assistance from Government. The measure, if proceeded with, it is said, will likewise affect the success of the loan which Government will have to raise in this country and that, therefore, the game will not be worth the candle. There s some force in these arguments as Sir James Meston himself has admitted, but their importance is only relative.

The crucial question is, can the Finance Member do without the new tax? Has he resources enough to enable him to tide over the difficulties that will still surround him in the near future? If the answer to this question is in the affirmative, the excess profits tax is not to be imposed merely for the fun of the thing. But if the resources of Government are likely to be strained, the military charges are going to be heavy, and the capital and current requirements of the treasury cannot be satisfactorily met with existing resources, there will be no alternative to the excess profits tax. The impost should have been levied long before this and the Finance Member should have made hay while the sun was shining. And he cannot give it up unless there is a suitable alternative. Famine will cause distress to the mass of the people over a large part of the country, and the armistice has not brought to them favourable economic conditions with it. It will be unjust to impose any tax which will directly or indirectly

fall upon the common consumer who has already suffered a great deal, and the revenues of the State will be reduced by the prevalence of famine. The alternative of a big loan has been suggested, but it will only help the wealthy who have reaped huge profits during the war, to escape and place a comparatively heavy burden upon the shoulders of the poor taxpayer. The landed and commercial interests in the country are peculiarly vocal and powerful. Even the strength of Sir William Meyer quailed before the opposition of the landlords and their friends, when it was proposed by him to take their agricultural incomes into account in determining the rate at which they should be taxed with respect to their non-agricultural income. The same fate seems to threaten the excess profits tax, and Sir James Meston will require all his strength and firmness in deciding the course to be taken.

A famine and a legacy of liabilities left to him by the years of war, confront the Finance Member at the very beginning of his career, and we hope he will not shrink from taking whatever measures are necessary for the initiation of the work of economic and social reconstruction that lies ahead, in the face of the opposition that may be offered from different quarters. He has already relaxed the rigour of the control exercised by the Government of India upon the expenditure of the Provincial Governments, and the latter have been given freedom to draw

upon their balances according to their immediate needs. It is difficult to say if it will be possible to remit any large amount of the additional taxation imposed during the last three years. But there is no doubt that some of the imposts e. g. the enhanced salt duty and the surcharge on railway rates will have to go. Commercial and manufacturing interests will also press for the remission and abolition of other imposts, and here an attitude of firmness will become necessary. Sir James will have to make a decent provision for capital for public works and for the rapid promotion of economic and social reforms. He will have to tackle the problem of exchange and take steps to restore it to normal conditions, but it will depend upon the price of silver and the course of trade. Then there is the question of the large funds which have been transferred to London and which will have to be brought back to this country as opportunities offer. The paper and rupee currency which has enormously expanded, will have to be gradually contracted, and the readjustment must be cautiously but effectively made. Steps must be taken to pay off the short term debts in the course of the next few years, and the question of a State Bank must be immediately solved. The constitutional reforms will mean an overhauling of the whole financial machinery of Government, and full advantage must be taken of that opportunity to make India's

financial policy up-to-date and progressive. We have every hope that Sir James Meston will rise to the height of the occasion and make the best use of the splendid opportunities that will open before him. In one sense, his task will be more difficult than that of his predecessor, but if he achieves success in the work of reconstruction that has fallen to his lot, his tenure of office will mark an important stage in the history of this country. We wish Sir James godspeed.

Chapter VII.

TAXATION AND EXPENDITURE.

WE have so far narrated the chief events in the history of Indian War Finance, pointing out in the appropriate places the significance of the developments as they occurred in our currency and exchange systems and the modifications that were effected in the pre-war methods of raising and spending revenue and loans in order to make them conform to the requirements of the situation as it underwent rapid changes from time to time. It is believed that this survey has given the reader a fairly clear idea of the contribution the people of India made to the prosecution of the war and of the general principles Government adopted for assisting the Empire throughout the crisis of the struggle. Having related the story of Indian war finance as it proceeded from stage to stage, and having briefly summarised the results as they were apparent on the close of the conflict and on the eve of the epoch of reconstruction, we feel it will conduce to a greater clearness of understanding of the whole subject if an attempt is now made to deal briefly but separately with its principal aspects, bringing together, under different headings, the relevent facts and figures and indicating their true meaning. In this and the succeeding chapters, therefore, we shall try to show how questions relating to revenue, expenditure and taxation, currency and exchange, trade and banking, public debt and high prices were handled in the disturbed conditions during the times of war and how in the light of experience gained and the urgent needs of the future, they will have to be dealt with in the period that lies ahead.

A glance at the following statements will show how the revenue and the expenditure went on

steadily increasing from year to year during the war period :—

Revenue of the Government of India, in India and in England.

[Millions of £.]

	1913–14	1914–15	1915–16	1916–17	Revised Estimate 1917–18	Budget Estimate 1918–19
Principal Heads:						
Land Revenue.	21·3	21·2	22·0	22·0	21·1	22·3
Opium ...	1·6	1·5	1·9	3·1	3·0	3·1
Salt ...	3·4	3·9	3·6	4·8	5·4	3·5
Stamps ...	5·3	5·0	5·4	5·7	5·7	5·9
Excise ...	8·8	8·8	8·6	9·2	10·0	10·3
Customs ...	7·5	6·3	5·8	8·6	11·2	10·7
Other Heads ...	5·4	5·1	5·3	3·6	3·8	3·8
Income-Tax ...	...	...	...	3·7	6·0	6·3
Total ...	53·7	52·1	52·8	61·1	67·5	66·2
Interest ...	1·3	1·0	1·0	1·1	2·2	3·5
Post & Telegraphs ...	3·5	3·6	3·7	4·1	4·4	4·7
Mint ...	·3	·06	·1	·6	·5	·3
Receipts by Civil Depts....	1·4	1·5	1·5	1·7	1·9	1·9
Miscellaneous...	·7	·6	·6	·8	2·5	1·3
Railways : Net Receipts...	17·6	15·8	17·9	21·3	24·0	22·9
Irrigation ...	4·7	4·6	4·7	5·1	5·1	5·3
Other Public Works ...	·2	·2	·3	·3	·3	·3
Military Receipts ...	1·3	1·3	1·2	1·5	1·5	1·5
Total ...	85·2	81·1	84·4	98·0	110·4	108·3
Deficit ..	...	1·7	1·1	...	...	...
Total ...	85·2	82·9	85·6	98·0	110·4	108·3

7

Expenditure charged to Revenue in India and in England.

[Millions of £.]

	1913-14	1914-15	1915-16	1916-17	Revised Estimate 1917-18	Budg Estimate 1918-19
Direct Demand on the Revenue	9·2	8·9	9·4	9·3	9·9	10·4
Interest ...	1·5	1·1	1·1	1·1	7·7	7·7
Post & Telegraphs ...	3·2	3·1	3·1	3·4	3·6	3·9
Mint	·1	·1	·08	·1	·1	·1
Salaries & Exp. of Civil Depts.	17·9	18·9	18·8	19·0	20·9	22·9
Miscellaneous Civil charges..	5·4	5·3	5·1	5·4	5·9	5·6
Famine Relief & Insurance...	1·0	1·0	1·0	1·0	1·0	1·
Railways: Interest & Miscellaneous charges ...	12·8	13·6	13·9	13·8	13·8	13·7
Irrigation ...	3·5	3·7	3·7	3·5	3·7	3·9
Other Public Works ...	7·0	7·1	5·4	4·6	5·1	5·9
Military Services ...	21·2	21·8	23·5	26·5	30·2	30·5
Total Expenditure, Imp. & Provincial ...	83·1	85·1	85·4	88·1	102·3	106·1
Add:-Provincial surpluses..	·3	...	·3	2·3	2·3	·3
Deduct: Provincial Deficits ...	*·6*	*2·1*	*·2*	...	*·06*	*·4*
Total Expenditure ...	82·8	82·9	85·6	90·5	104·5	106·0
Surplus ..	2·3	...	...	7·4	5·8	2·3
Total ...	85·2	32·9	85·6	98·7	110·4	108·3

Under modern states, taxation is regulated by the expenditure which is regarded as neces-

sary, instead of expenditure being made to wait upon the revenue. This statement requires modification to this extent that proposals about expenditure can not be made without some thought being paid to the possibility of raising the additional amount by way of taxation. There is an obvious limit to the amount that can be secured by means of taxation which varies according to the peculiar conditions prevalent at the moment. If the expenditure is, however, looked upon as urgent, this limit rises and it thus becomes elastic. The necessities of a war, for example, are paramount and as the expenditure on its account must be incurred, at any cost, it has to be met largely out of increased taxation. In countries where there is a popular government, if the majority of the people want funds to be laid out on a new undertaking, the responsible finance minister finds no difficulty in raising the necessary amount, and is driven to levy new taxes if he is personally unwilling to incur fresh expenditure. Under the Liberal Government in England, the national expenditure increased from about £ 154 millions to £ 199 millions in the course of five years before the outbreak of the war, old age pensions alone absorbing more than £ 12 million out of the total. The reform schemes of Mr. Lloyd George entailed larger total expenditure and he met it by tapping new sources of income and extracting money out of the wealthy. It is only when needs are not very pressing, that additional

expenditure is put off and the want of funds is pleaded in doing so.

In India the Government has not been responsible to the legislature and, therefore, it will levy new taxes when it feels that the call for expenditure is imperative though it will not yield to the demand of the people and provide more funds for reforms by raising the required funds by additional taxation. When it has the will, it may do as it pleases; when it has not the will, it will plead the lack of popular support. In the past, the Government of India has imposed new and increased taxes year after year, to meet additional military expenditure and the loss on the exchange.* Aniticipating the threatened loss of opium revenue, Sir Guy Fleetwood Wilson imposed new taxes in this way in 1910. But rarely has a Finance Member stood before the country with proposals about additional taxes to be imposed for financing schemes of educational or sanitary improvement. A glance at the statement of expenditure given on a previous page, will show that the total expenditure of India increased from £ 82·8 million in 1913–14, the last pre-war year, to £ 108·3 million put down in the budget estimate for 1918–19. which did not include the additional financial liability undertaken later in that year. This means an increase of some £ 25 million or 37 crores. of rupees in five years

* See the Author's Gokhale and Economic Reforms, pages 14–15.

excluding the £ 12 million estimated for extra military expenditure in 1918-19. Interest charges, expenditure of civil departments and military expenditure account for more than £ 20½ million out of the increase. The war contribution of £ 100 million entailed the annual charge of more than £ 6 million on account of interest and sinking fund provision. This was purely a war sacrifice on the part of India. There were small increases on almost all the items covered by the main heading 'salaries and expenses of civil departments' and they aggregated about £ 5·2 million in five years. The increase in military expenditure calls for no remark. More than £ 15 million of the increased expenditure may be put down directly to the war as India's contribution, and the additions in the other items were indirectly and partly due to the conditions created by the war. The following statement shows how the £ 22·9 million put down in the budget for 1918-19 against salaries and expenses of civil departments was distributed under different items and how the amounts compare with those of the last pre-war year :—

[In Million £.]

	1913-14	1917-18 Revised Estimate.	1918-19. Budget.
General Administration.	1·9	2·2	2·2
Law & Justice — Courts.	3·0	3·3	3·3
Law & Justice — Jails...	·9	1·1	1·1
Police ...	4·8	5·5	5·8
Ports & Pilotage ...	·2	·2	·2
Education ...	3·1	3·3	4·1
Medical & sanitation ...	1·3	1·5	1·7
Ecclesiastical ...	·1	·1	·1
Political ...	1·1	2·2	2·6
Agriculture ...	·5	·7	·8
Scientific & miscellaneous	·0	·5	6
Total ...	17·9	20·9	22·9

It will be seen that police expenditure increased by £ 1 million and the political charges by £ 1½ million After the non official members of the Viceroy's Council, the educated public and the Indian press had hammered at the subject for a long time, the Finance Member released larger amounts for expenditure on education and sanitation, in the budget for 1918-19. Replying to criticism in this regard Sir William Meyer observed :—" Then, we have had a wail that beneficent expenditure is at a stand still owing to the war. Well, the war is on us and we cannot expect to get on with other outlay as if there were no war at all." Here is the key-note of the policy of Government in connection with expenditure. It was overshadowed by war, and slow progress was India's sacrifice and contribution. Government did not formulate any comprehensive schemes of expansion and loosened their purse strings only for small educational and sanitary improvements. The Hon'ble Sir C. Sankaran Nair, the Education Member, said in introducing the financial heads in his charge in the Viceregal Council in March, 1918:—"When I took over my present office in 1915, we were spending about 4½ crores of rupees a year. Last year we spent 5 crores, and next year we hope to spend over 6 crores. The number of scholars which seven years ago, was barely 6¼ million was over 7 million in 1916-17 and I trust that it will be

found to exceed 8 millions in the present year and that we shall make a further advance next year."

The position of the Government of India in this connection, was that education was a provincial matter and that educational expenditure must be met from provincial revenues. It only made additional grants when there were surpluses or its finances allowed it. Thus Rs. 30 lakhs were given in 1917-18 and another Rs. 30 lakhs was provided for 1918–19. The Education Member in the Viceroy's Executive Council apologetically observed that his Government would have been glad to have been able to formulate a scheme providing in advance for the progressive extension of primary education, but it was precluded from doing so by the prospective changes in the financial system that would be inaugurated as a part of the contemplated constitutional reforms. Though Government had not adopted compulsion as a part of their programme, they had given an opening to the introduction, in several provinces, of schemes by local bodies in that behalf. The Government was allowing them to spend a little more liberally and the provincial expenditure was taken for 1918–19 at £ 34·4 million as against £ 31·4 in the revised statement for the preceding year. To put it briefly, war economy and the impending reforms prevented the formulation of any bold schemes of educational advancement and the termination of the war finds India without a programme when problems of re-

construction should have been vigorously taken in hand. The same remark applies to sanitation. The budgeted amount for sanitation, apart from the provision under the head 'medical' for 1917-18, was £610,000, which was reduced in the revised statement, to £580,000. In 1818-19, there was a provision of £715,000 as against £ 423,000 in 1913-14. In declining to accept Mr. Sarma's resolution asking for a grant of Rs. 50 lakhs in aid of sanitation, Sir William Meyer pleaded that the Imperial surplus shown in the budget was essentially needed for ways and means purposes in connection with the war and it could not be dissipated for another purpose. The Hon'ble Mr. Sarma wanted to know why the Indian Government could not induce the Government of England to help us by releasing our funds made available for war purchases when it was lending large amounts to the Allies and the Colonies. The answer is simple. The British Government was helping the Allies and the Colonies by lending them amounts disbursed for them in England and spent for them by England, whereas India lent to England the amounts she was disbursing for the British Government in this country. India thus played, with respect to the United Kingdom, the same role in this connection as the United Kingdom played with respect to the Allies and the Colonies. This was an invaluable service rendered by India to the Empire and her troubles constituted war sacrifice for the Empire.

In spite of all retrechment and economy Government tried to enforce, necessities of war and high prices increased expenditure on almost all items. Increase in military expenditure was, however, the largest. Though the additional military and financial responsibility was undertaken by India only in 1918–19, extra units were being maintained to meet eventualities and the military budget had expanded owing to this and other causes even before that. As a result, military expenditure advanced from the £ 20 million of pre-war times to £ 29 million provided in the budget for 1918–19. It was calculated that owing to war, in all about £ 25½ million more would be spent on account of military charges by the end of that year than would have been the case otherwise. This does not include the "political" charges incurred in Persia and the military charges on the N. W. Frontier, which would amount to £ 2¾ million up to 31st March, 1919, nor the £ 6 million a year on account of the war gift of £ 100 million. Soon after the outbreak of the war, India offered to surrender her claim to the normal cost of her armies fighting with the expeditionary forces outside our borders and the offer was accepted by Parliament by a resolution passsed by both Houses in November, 1914. The cost of the military forces sent abroad and of the vessels placed at the disposal of the Admiralty and the difference between the normal cost of the trooping service and the smaller

amount actually payable, constituted India's contribution and amounted to about £ 23 million to the end of 1917-18. To this must be added the further financial liability undertaken in September, 1918, for the new armies raised and to be raised in India.

What will be the after-war military expenditure of India, it is difficult to say, and depends upon the arrangements which will be made for the defence of the Empire after the conclusion of the peace. India has borne heavy military expenditure for years, and it will be but an act of justice if she is, on the establishment of peace, relieved of a part of it. We are afraid, however, that there will be no reduction and we shall be asked to bear it as our share of the cost of the defence of the Empire. This will not be equitable as it is almost certain that India will have to maintain a decent navy of her own. In any case, no material decrease in the expenditure on armaments may be expected, and if there is an increase, a high level of taxatiou will become inevitable. India will not grudge the maintenance of a navy but then, her army expenditure must be cut down. Indians must also be given access to the highest posts in the army and the navy, as a matter of right, and the cost of the two will be appreciably reduced if this overdue reform is carried into effect. The beneficent expenditure which is so urgently needed for a variety of purposes will not be possible in

the future as it has not been possible in the past if funds cannot be released by subtantial economy. When normal conditions are completely restored, our military expenditure will, of course, return to the pre-war scale, and there wlll be a reduction of over £ 9 million, but this assumes that new burdens for purposes of defence will not be thrown upon India. The aim of the policy of Government in connection with expenditure in the immediate future, must be to provide adequate funds for the extention and improvement of education of all kinds and grades, for the promotion of public health and for the development of industries and trade. The economic weakness of India was glaringly exposed during the time of war, and liberal State assistance to industries has been recommended in the Montagu-Chelmsford report and the report of the Industrial Commission. A radical departure from the old complaisant policy is imperative and acceleration of speed is urgently called for.

The increased expenditure, directly and indirectly necessitated by the war, was defrayed out of additional taxes imposed. India's revenue is partly derived from taxation proper and partly from the commercial departments of the State. Before famine conditions established themselves over a large part of the country this year, revenues were coming in most satisfactorily. Even now large increases over the budget estimates may be looked

for in the income from railways and from some other sources like customs, though these will be counter-balanced to a certain extent by a decrease in land revenue in particular. The principal heads of revenue, which include the chief sources of the tax income of the State, yielded £ 53·7 in 1913–14 and £ 67·5 according to the revised estimate for the year, in 1917–18. This increase of about £14 million is due to the enhanced proceeds of the income tax, customs, excise and opium. For the first two years of the war, the deficits were covered with borrowings and it was in 1916–17 that war taxation was first imposed. The salt duty, customs and the income tax were raised and export duties were levied on tea and jute. We feel that the duty on salt should not have been increased as it was undoubtedly calculated to raise the price of an important necessary of life, and as the increase in revenue was calculated at only £6000,000. The enhancement of the customs duties was a perfectly sound measure, because it would have fallen mainly upon the well-to-do classes and the consumers of imported commodities. The increase in the income tax and the introduction of the principle of graduation were steps in the right direction. Jute and tea were articles which could bear an export duty and this innovation was unexceptionable. Next year came the super tax. The war, with the abnormal prices it brought with it and the heavy demand for certain Indian com-

modities created by it, continued to put huge profits into the pockets of a small class of merchants and manufactures and the excess profits tax should have been levied at the same time. The measure contemplated for 1919-20 should have been anticipated in 1917-18 and the lack of the necessary machinery for the purpose, was not an insuperable difficulty. But the Finance Member delayed and lost considerable revenue which could have been utilised for schemes of development.

Now that the war has ceased, a demand will be made for the remission of taxation. The salt duty must be restored immediately to the pre-war level and the surcharge on railway traffic ought to disapper as this is necessary to relieve the burden of the mass of the people. The customs duties cannot be lowered, not even the duty on cotton piece goods to which Manchester had most reluctantly to consent. The graduated income tax and the super tax must become permanent features of the Indian system of taxation, and inheritance taxes and death duties should be imposed in the near future in order to enable Government to finance schemes of national development. As regards import and export duties and fiscal policy generally, Indian leaders are asking for autonomy for India on the lines of the freedom enjoyed by the self-governing Colonies. Free trade policy is, for the time, discredited in England and the coalition government has triumphantly come to power with Mr. Lloyd George at the head, pledged to protection and imperial preference. Unless India secures

fiscal autonomy and her Government is subjected to the control of a popularly elected legislature, this means that India's tariff will be regulated by what suits the inclinations and the interests of the coalition Government in Great Britain. Under free trade, India could not encourage indigenous industries by State help and protective duties and could not also raise any considerable amount of revenue by means of a high tariff. With protectionists in power in England, India will have to submit to any policy which may be dictated to her though it may not be approved by the people of this country and may be detrimental to their best interests. India may have to pay higher prices for commodities of foreign manufacture and to sell her own raw materials cheaper to certain nations; and this arrangement may result in a balance of serious disadvantage. Apart from the complications and serious risks to the attainment of the noble war aims of the Allies, which fiscal preferences involve, it will impose burdens upon this country which will react unfavourably upon our economic condition. Messrs. Lloyd George and Bonar Law have spoken in no uncertain terms in this connection, and they propose to pursue the fiscal policy advocated by Mr. Joseph Chamberlain sixteen years ago.*

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* "Until the country has returned to normal industrial conditions, it would be premature to prescribe a fiscal policy intended for permanence. . . . . The country will need all the food, all the raw materials, and all the credit which it can obtain, and fresh taxes ought not to be imposed upon food or upon the raw materials of our industry. At the same time, a preference will be given to our colonies upon our existing duties and upon any duties, which. for our own purposes, may

Capital expenditure on railways had to be reduced to the lowest dimensions during war time and repairs and renewals had to be postponed. In the coming years, an effort will be made to attain the pre-war standard as regards capital outlay and the net revenue to the state which rose during the past few years and rendered valuable help to Government at a time of serious financial stringency, will be reduced. The position of the railways has been as under for the last five years :—

[In millions of £.]

	1914-15.	1915-16.	1916-17.	Revised. 1917-18.	Budget. 1918-19.
Capital at charge at end of each year.	361·5	364·8	365·4	367·3	370·1
Working profit excluding interest charges	15·6	17·7	21·1	23·9	22·9
Percentage of same to capital outlay	4·3	4·8	5·7	6·5	6·1
Final working profit after meeting interest charges	2·1	4,0	7·4	10·1	9·2
Percentage of same to capital outlay	·60	1·12	2·0	2·0	2·4

be subsequently imposed. One of the lessons which has been most clearly taught us by the war is the danger to the nation of being dependent upon other countries for vital supplies on which the life of the nation may depend. It is the intention, therefore, of the Government to preserve and sustain, where necessary, these key industries in the way which experience and examination may prove to be best adapted for the purpose "—Manifesto issued to electors by Messes. Lloyd George and Bonar Law.

In order to open up large tracts of the country and to develop the resources, thousands of miles of railway are still required and a policy of steady extension and improvement must be followed. Sufficient capital must be provided for this purpose, but we would utter a word of caution against carrying on railway construction at top speed to the detriment or neglect of progress in other directions. We would recall the warning uttered by Sir Guy Fleetwood Wilson* who deprecated feverish activity which was calculated to depreciate the fine asset the country posseses in its railways. It has been suggested† that the profits from railways should not be mixed up with the ordinary revenues of the state and should be set aside to be invested in the extension of railways. We do not approve of this suggestion for the reason that the railways were till fifteen years ago, a losing concern and the taxpayers are perfectly entitled to relief when they are now a paying proposition. The revenue from railways in a legitimate source of income to the state which ought to take up the management of the lines it owns and thus save the share of profits that is being paid to the companies and which amounts to £ one million and more annually. The nationalisation and state control of railways are problems which Government in the United King-

* See the Author's Gokhale and Economic Reforms, page 84.

† Budget Debate in the Supreme Legislative Council, March, 1918.

dom propose immediately to tackle. This question of the state management of railways has been sufficiently discussed in India, and no opportunity should be lost of taking over railway management in the interests of the exchequer and also of the economic development of the country.

It is now pretty certain that the Provincial Governments will secure financial autonomy whatever shape the constitutional reforms may finally take. For purely provincial services those Governments will be thrown upon their own resources which will be separated from the resources of the central Government. The Government of India will receive small contributions from the Provinces and will raise the revenue required for Imperial services like defence by means of Imperial taxation. How the adjustment will be precisely made cannot be forecasted but Provincial Governments will be left to levy additional taxation for financing educational and other schemes of improvement. This decentralization of finance will mean rapid development of local finance which is,- at present, in an extremely weak position, and this is one of the most important points in connection with the work of reconstruction that has to be taken in hand without delay. Extension of education, improvement of communications, the promotion of public health, relief of indebtedness, encouragement of industries, are matters which will require a good deal of financing and the money

will have to be found by Provincial Governments. The complaint that the administration is too costly for our resources, will have to be carefully looked into and all possible economies must be effected. Having done this, the Governments will have to raise the necesssary resources by suitable taxation. Land revenue will be their main support and in rayatwari areas, it will not be capable of any substantial increase. Natural increases in revenue will have to be relied on and other sources will have to be tapped. Owing to the restrictions imposed by the Government of India upon the expenditure of Provincial Governments with the view of relieving the strain of war upon its resources, the Provincial balances have mounted up to high figures, and they can be steadily drawn upon during the next few years. Provincial Governments will thus be enabled to undertake schemes of improvement and provide the non-recurring charges in connection with them. The closing balances of Provincial Governments amounted to nearly £ 10 million in 1916–17 and were estimated at about £ 12 million for the year 1918 19.

To sum up. Now that the war is over, certain items of expenditure which were entirely due to the prosecution of it, will disappear, but with them will vanish also certain sources of income which were special to war times. Army expenditure will soon be restored to the pre-war level, and it is only a forlorn hope that it may be reduced still further.

It is besides quite likely that naval expenditure will be increased. Drastic reductions will have to be made in the civil expenditure and though national development will necessitate heavier outlay, rigid retrenchment and economy combined with the substitution of cheaper (but not less efficient) Indian agency for the present costly European agency, ought to give some relief. The war lagacy of the interest charges on the increased public debt, will remain as a memorial of our sacrifice for the Empire. In any case, it is futile to expect that our national expenditure will return to anything like the pre-war figure. Similarly, the national revenue will have to be maintained at a higher level than that of the years before the war. Some of the imposts levied during war time must be remitted as unsuited to times of peace. Land in the prosession of poor cultivators, will not bear higher taxation and the richer receivers of rent will have to make a larger contribution to the State. The income tax and the super tax will have to remain in their present position, as also the import duties. If Imperial preference becomes an accomplished fact, our tariff will be complicated, and our finances may be adversely affected by the favour we shall have to show as much as by the penalties we shall seek to impose. Taxes upon larger incomes, assessed upon a graduated scale, and duties upon inheritances, have a certain limit and increased customs duties will be our main resource. The

steady development of the country will increase the yield of the existing taxes and this natural growth of revenue will also encourage the execution of schemes of improvement. We cannot make bricks without straw and if we want a rapid advancement of the nation, we must be prepared to pay liberally. Care must, however, be taken to distribute the financial burdens in consonance with the principles of equity and ability. A democracy looks with a jealous eye upon the wealth of the richer classes, landlords and capitalists, and aims at relieving itself by imposing heavy burdens upon the moneyed people. But for several years to come, the voice of the true democracy is not likely to prevail in the governance of India. Hence the need to devise a sound system of finance for this country, under which the social and economic development of the people will be promoted in the most efficient way and taxation will fall upon different classes in proportion to their capacity.

Chapter VIII.

CURRENCY AND EXCHANGE.

A modern nation making war, particularly a wicked war of agression, only reveals the barbarism hidden behind the veneer of its vaunted civilization. Thinkers had hoped that with the advent of the twentieth century, war would be a thing of the past, a relic of times when despotic rulers led masses of people to slaughter only to gratify their personal ambition. Apart from respect for law, sense of justice, and regard for the independence of nations, it was thought that modern machinery of trade, banking and currency would render war, animated with the desire for conquest, unprofitable and, therefore, impossible. These hopes were belied by Germany's action in attacking the liberties of neighbouring nations. Germany no doubt entered upon the war with the expectation of winning sharp and speedy victories and thus making war an instrument of national profit. Germany held on more than four years, and the struggle, though it proved to be the most exhausting and destructive the world has known, demonstrated the fact that modern economic institutions and instruments could stand the terrible strain imposed upon them by the dislocation of war. After the first shock of the war, nations adjusted themselves to the abnormal conditions, and the elasticity of modern

systems of trade, banking and finance was clearly shown.

The very first effect of the war, as might have been expected, was a serious shock dealt to credit, to the world's exchanges and to currency systems. In a short time, nations recovered from the shock and steadily reconciled themselves to the changed conditions, though in the nature of things, early restoration of the normal position was not to be expected. Freedom of movement underlying the systems, had to be restricted, old limits had to be crossed and new limitations had to be imposed. In matters of currency there were two directions in which difficulties were experienced. In the first place, there was the question of conserving the national stocks of the precious metals which were being exhausted and secondly, there was an enormous demand for increased supplies of the media of exchange. When a war breaks out, there is a panic among the mass of the people and every body hurries to convert paper into solid gold. Almost all countries of the world now have a gold standard and their currencies require a solid backing of gold. But if people suddenly begin to part with paper money and securities and get hold of and hoard all the yellow metal they can, the very foundations of a gold standard are undermined. Depleted stocks cannot be replenished in a time of war. In the case of several countries, notably Great Britain, on account of the pre-occupations

of war, exports fell off and the imports had to be maintained on a large scale. Consequently no gold could come into the country and there was great pressure upon what gold was available. When the panic subsided, the demand for gold and the encashment of paper declined. The position in the United States of America and other countries which had a favourable trade balance, was the reverse of this. They received ample quantities of gold in payment for their exports, or gave credit for the amounts to the debtor nations. The universal demand for gold raised its value and efforts had to be made to prevent hoarding and to economise its use.

While on the one hand the supply of the precious metals was thus inadequate, the demand for currency on the other, grew steadily every day. Prices were rising and the needs of a more active exchange caused by the war, intensified the demand. Governments had therefore to issue larger quantities of paper currency and allow banks to override the limitations of normal times. In England, postal orders had to be made legal tender for a time, notes of small denominations were issued and an increasing quantity of treasury notes was put into circulation, the backing of gold against which was extremely small. We give below statistics in connection with currency notes in the United Kingdom and gold held for their redemption :—

Currency Notes in Great Britain.

	Notes outstanding Million £.	Gold coin & Bullion Million £.	% Gold to Notes %
Nov. 13, 1918	293·7	28·7	9·7
Nov. 14, 1917	191·3	28·5	14·9
Nov. 15, 1916	138·8	28·5	20·5
Nov. 17, 1915	88.5	28·5	32·2
Nov. 18, 1914	33·8	12·5	39·3

A considerable increase has taken place during war time in all other forms of currency, and the quantity of gold, silver, bronze, cheques, notes and other media of exchange has enormously risen, so that according some, inflation has been caused by this augmentation of supply. The convertibility of paper was, as a result, limited, though specie payments were not formally suspended. The gold standard, so characteristic of the United Kingdom, was practically, though not theoretically, abandoned and Government continued to supply quantities of the different forms of money as they were required.*

Few ever pretended that India possessed a true gold standard. A gold standard in the sense that all internal currency is convestible into gold, has come to be regarded as a wasteful system and the currencies of most countries are more or less readily inconvertible. The Indian system has avowedly been a gold-exchange standard system. The Fowler Committee had indeed recommended for India the development of a gold standard accompanied by a gold currency in actual circula-

* See Prof. J. S. Nicholson's War Finance.

tion. But the idea of evolving such a system, was steadily given up and the Chamberlain Commission, which examined the whole position, came to the conclusion that it was enough for India, as for many other countries, if as much of the rupee currency as it was necessary to convert into gold for foreign remittances, could be redeemed by Government, when there was an adverse balance of trade and the exchange went below the gold export point. On such occasions, which must be rare, the gold reserve to be built up out of the profits derived from the coinage of token rupees, was to be used. An increase in the circulation of paper currency was to be encouraged and the use of gold as well as of silver, was to be economised. This was the currency system of India before the out-break of the war. Government issued rupees and notes in response to the demand of the public. A part of both these forms of currency remained in the hands of the people as excess of the issues over the return to the treasuries and constituted 'absorption'. There was a net return of currency to the treasuries only in times of adverse trade conditions. Usually the tide went the other way.

After the out-break of the war and as the struggle proceeded, India went through experiences similar to those of the United Kingdom and other countries. Panic, temporary loss of public confidence, restoration of credit, increasing demand for and issues of currency, inflation and high prices were the different phases worn by the monetary system, and Government strove to keep the currency machinery going in spite of the difficulties constantly encountered in working it. The following statement shows the absorption or return from circulation of the various forms of currency in the five years ending with 1916-17:—

[Crores of Rupees.]

	1912–13	1913–14	1914–15	1915–16	1916–17
(1) *Silver* :—					
New Rupee Coinage ...	+12·27	+ 9·51	...	...	+29·98
Increase (—) or decrease (+) in the Currency Reserve of rupess ...	— 1·05	— 4·08	—11·80	+ 9·28	+ 5·97
Transfer from or to Gold Standard Reserve ...	...	...	+ 6·0	...	...
Exports from India ...	...	...	— ·85	— ·69	— 1·25
Total Silver ...	+11·22	+ 5·43	— 6·65	+ 8·59	+35·70
(2) *Gold* :—					
Net Imports of sovereigns (through Currency) ...	+21·57	+ 9·49	— ·11	— 3·33	— ·7
Increase (—) or decrease (+) in Currency Reserve of sovereigns ...	— 6·04	+ 6·94	+14·79	— 4·60	+ ·24
Transfer from or to the Gold Reserve ...	...	...	— 7·86	+ 7·50	+ ·20
Total Gold ...	+15·53	+16·43	+ 6·82	— ·43	+ ·37
(3) Increase (+) decrease (—) in the circulation of currency notes ...	+ 7·61	+ 2·86	— 4·49	+ 6·10	+18·64
(4) Increase (—) or decrease (+) in Treasury balance ...	— 9·84	— 4·84	+ 1·24	+ 4·14	— 4·92
Grand total of currency Demands ...	+24·52	+23·84	— 3·08	+11·40	+48·79

The currency conditions reflected in the above statement, were accentuated in 1917–18. New rupee coinage added 23·1 more to the circulation, the currency reserve was depleted to the extent of 6·6 crores and 1·6 crores were exported. The net imports of sovereigns (through currency) came to 9 crores and there was a decrease of 2·4 crores in the reserve of sovereigns. There was an increase of 13·4 crores in the note circulation and increase of of notes in treasury balances was only 5 lakhs. Putting all these figures together, we arrive at 53·1 crores as the total absorption of currency for the year 1917–18.

Certain interesting facts emerge out of the above statement. (1) The absorption of the various forms of currency which was about 24 crores of rupees a year before the war, was converted into a return to the treasuries of 3 crores in 1914–15 and rose steadily during the next two years. When the war broke out, trade was dislocated and the public demand for the circulating media was reduced. Trade steadily revived and with it the currency demand also. With the intensification and prolongation of the conflict and the growing expenditure on the war, more currency was required and more of it remained in circulation and in hoards. (2) In these conditions, during the early part of the war period, there was no demand for fresh rupee coinage and it gradually increased till at last the mints could not issue rupees faster than

they were required. (3) Before the war, a small quantity of rupees usually returned to the Reserve but in 1914-15, the value of the rupee was abnormally lowered, and as the public exchanged rupees for gold or sterling drafts on London, as much as 11·80 crores was the increase in the Reserve in 1914-15. During the next two years, however, the demand for rupees was so keen that instead of the Reserve being augmented by the return of rupees, it was depleted to a large extent. (4) There was also a small export of rupees out of India for the use of troops fighting on the battle fields. (5) The net imports of sovereigns was large in times of peace. Not only was it stopped on the out-break of the war, but there was a small export of sovereigns. Gold was at a premium and was acquired by Government, and its absorption by the public practically stopped. (6) The circulation of currency notes received a temporary set-back in 1914-15 but owing to the same cause as led to the increase in the circulation of rupees, the issue of paper money also grew steadily, the increase being proportionately larger as the war proceeded.

An extensive use of paper money has obvious advantages. In England a minute proportion of the total currency circulation consists of metallic money, the bulk of exchange transactions being executed through cheques. On the continent of Europe, notes occupy the place of cheques. In India, owing to ignorance and poverty, the de-

mand for metallic currency is large and the use of paper currency has but slowly grown. The policy of 'universalising' notes and of giving facilities for their encashment, has promoted the increase of the circulation of papermoney in recent years. After the country recovered from the first shock of the war, public confidence was restored and trade revived, note circulation steadily advanced. The following figures show the progress of the circulation of notes:—

Average Circulation.

[Crores of Rupees].

Year.		Gross.	Net.	Active.	Increase.
1910-11	...	54·3	48·5	38·7	+ 1·5
1911-12	...	57·3	51·8	41·1	+ 3·1
1912-13	...	65·6	54·9	45·3	+ 3·5
1913-14	...	65·5	55·6	46·6	+ 1·2
1914-15	...	64·0	59·2	45·4	− 1·2
1915-16	...	64·1	60·3	48·0	÷ 2·6
1916-17	...	76·1	72·3	59·3	+ 11·2
1917-18	...	101·7	98·3	71·8	+ 12·5

Each time one looked at the circulation of notes, year after year, the figure appeared to be a 'record' and fresh records continued to be created till the total gross circulation approached 140 crores. This increase will be seen from the following figures :—

[In crores of Rupees].

Year.	Total Circulation.	Active Circulation.
1914 February, 1st ...	63·9	51·9
1915 ,, ,, ...	60·3	45·1
1916 ,, ,, ...	62·4	54·1
1917 ,, ,, ...	84·4	67·9
1918 ,, ,, ...	104·8	82·1

Besides giving extra facilities for the encashment of notes, Government issued on 1st December 1917, and 2nd January, smaller notes of Re. 1 and Rs. 2½ respectively. These notes spread into circulation easily in the cities and larger towns, but were far from popular in villages and smaller towns. At times even the ten rupee notes were at a discount and the demand for cash was extremely keen. The most serious embarrassment caused to Government was the large disbursements it had to make for His Majesty's Government and the consequent need of an abnormal supply of rupees. Various measures were taken to economise the use of the silver coins because the issues of rupees from the mints fell hopelessly short of the insatiable demand for that form of urrency. In 1916-17 Government sold to the public gold bullion held here on behalf of the Bank of England to remove or reduce the premium on sovereigns and relieve the strain on silver. £4 million was thus disposed of and besides that, £ 5 million of soveriegns were issued between April and August of 1917. All private imports of gold were taken over and the import and export of silver into or from India were forbidden in July of that year.

The enormous war disbursements necessitated continued issues of silver and paper currency and the sums realised in repayment of the disbursements, were lent to the British Government, being invested mainly in treasury bills in the United

Kingdom. This leads us to the question of the Paper Currency Reserve. The Indian paper currency system is based upon the principle of the note issue of the Bank of England, established by the Bank Charter Act of 1844. Before the war, for every currency note issued an equivalent amount of silver and gold had to be kept in the Reserve, except to the extent of Rs. 14 crores which could be invested in securities. The Chamberlain Commission recommended that this limit was unnecessarily low and should be raised to 20 crores. By Act V of 1915 power was taken to effect this change which was made to enable Government to assist trade or to meet unexpected emergencies. The old arrangement under the Paper Currency Act of 1910 was that out of the 14 crores, only 4 crores could be sterling securities, the balance being rupee paper to be held in India. By Act IX of 1916, while the total amount of Reserve invested in securities remained at 20 crores, the permissible investment in sterling securities was raised from 4 to 10 crores of rupees. For satisfying trade demand for remittances to India, the Secretary of State had to sell drafts upon the Indian Government and the latter could not meet them from its treasury balances. In such circumstances it had been the practise to sell drafts in London against the Paper Currency Reserve here.. The proceeds of the drafts were paid into the Reserve in London in the shape of 'ear-mark-

ed' gold, and a corresponding quantity of rupees was released from the Reserve on this side. This locking up of large quantities of gold in London would have put a strain upon the British holding of the yellow metal and it was the object of the Act of 1910 to allow the holding of the Reserve in London in treasury bills instead of in gold to the extent of 6 crores.

As the note circulation expanded, Indian funds were transferred to London as a result of the repayment there of the amounts disbursed by the Government of India, and as the metallic portion of the Reserve could not be maintained at the proper level, the limit of permissible investment in British treasury bills was raised successively in 1917 and 1918. The special treasury bill holding was increased from 6 to 18 crores and from 18 to 30 crores in 1916. Next year there was an increase to 48 crores and in 1918 a further increase of 24 crores. Together with the 10 crores in Indian securities and 4 crores in ordinary British securities invested under the old arrangements, the aggregate investment on behalf of the Paper Currency Reserve thus rose in 1918 to 86 crores of rupees. Towards the end of that year, power was taken to invest a further amount of 14 crores of rupees and the aggregate amount of investment rose to 100 crores. The metallic portion of the Reserve represented, on 1st Fabruary, nearly 53 per cent. of the active circulation as against a 96

per cent proportion on the same date in 1914. The composition of the Reserve was as follows in 1916, 1917 and in 1918:—

Composition of the Reserve.

Year.	Gross Circulation.	Gold in India.	Gold in U. K.	Silver.	Securities.
1916, April ...	65·4	12·2	11·9	19·5	21·2
1917, March ...	86·3	12·0	6·6	19·0	48·5
1918, November..	137·6	20·4	·1	31·0	86·0
1918, November 30th	141·0	20·4	·1	34·1	86·0

Not only was the metallic portion of the Reserve abnormally reduced, but legislation had to be undertaken in September 1918, to enable Government to regard silver held in the U. S. A. or on its way to India as a part of that Reserve. It must be clearly understood that the increased investment in British, Treasury bills was a temporary war measure and s those bills could have been easily converted into cash, they were as good as gold. The 'availability' of that part of the Reserve was, therefore, secure, and as regards the pre-war holding of consols, a depreciation fund had been established, built out of interest on securities in the Reserve against loss in value as compared with their purchase price. The question of the permanent composition of the Reserve will now have to be considered especially in the light of the recommendation of the Chamberlain Commission and the experience of the war period.

The Exchange difficulties of India were twofold. First, as in England and other countries,

depressing trade conditions and the dislocation of industry, had an adverse effect upon foreign exchange. The United Kingdom met the situation created by an unfavourable exchange by floating loans and selling securities in the U. S. A. America gave England credit for the amounts due to her for the large excess of exports to that country. In India, the Gold Standard Reserve has been specially created for the purpose of providing the gold required to meet foreign claims on account of an adverse trade balance. When India has to pay more than she has to receive, a demand for remittance immediately arises. Rupees seek conversion into gold and their value in gold declines, which means that the exchange goes down. Under a gold exchange system, there is the obligation on Government to supply gold for remittance purposes either directly or through sterling drafts. This Government did in the crisis of 1907–08, and a similar situation arose on the out-break of the war and twice again later on. The Gold Standard Reserve was drawn upon and 'reverse councils' were sold to meet the demand for remittance.

But the chief difficulty India had to face was not about a low exchange as might have been expected. In spite of the dislocation of trade caused by war conditions, the demand for Indian commodities being heavy, the balance of trade was in India's favour during the greater part of the war period and our Government's disbursements

repayable in London, were so large, that the value of the rupee rose and with it the rate of exchange. Such a rise of the rupee above its fixed gold value, viz 16d., had never been anticipated, all our currency troubles in the past having arisen out of the cheapness of silver. Owing to the unprecedented pressure of the demand for the precious metals upon the available word supply, the price of silver mounted to great heights, and at times the intrinsic value of the token rupee exceeded its face value. Instead of Government making a profit on the coinage of rupees, as in normal times, it stood to lose and the gold value of the rupee had to be raised for the purpose of exchange, ultimately to 18 d. The admitted responsibility of Government to maintain exchange at the fixed rate, was interpreted by it to mean an obligation to prevent the rupee from falling below 16 d. and not also to keep it from rising above that level. The profits due to this currency policy were accumulated in the Gold Reserve, but the losses were not thrown upon it and they fell upon exporters who received fewer rupees for their commodities owing to the depreciation of gold. The gold exchange standard thus broke down under war conditions. It, however, collapsed not because the gold value of the rupee went below the export point as might have been expected but because the credits of India exceeded her debits and the balance in her favour could not be made good by imports

of the precious metals. As we have observed above, it was only occasionally, first from August 1914 to January 1915 and for three months from June 1915 and for a few weeks towards the close of 1918, that sterling drafts on London had to be sold. Otherwise it was to prevent the exchange from rising to greater heights that restrictions had to be imposed. During 1916–17 the demand for remittances to London was so heavy that in January 1917 rates of 17 d. were quoted and transactions were actually put though at the rate of 18 d. Attempts to fix rates by agreement on the part of exchange banks having failed, the Secretary of State made arrangements with the banks' London Offices, under which their Indian branches were bound to observe rates based on 1 s. $4\frac{7}{32}$ d. for T. T.s on London. Preference was given to exports of national importance and exporters of what were non-essential exports were ready to accept any prices for their bills. The above rate remained in fore till 29th August, 1917 when it had to be raised on account of the enhanced price of silver to 17 d. On 11th April, 1918, a further advance had to be made to 18 d. In the mean while, Government entered into an agreement with the United States Government for the release to India of a portion of the dollars in their Currency Reserve, so that the silver thus secured might be used to coin rupees to meet the demand for currency in this country. The American Government received

payment for this silver by selling bills to American importers, the bills being paid in this country by the Government of India.

• Of the many interesting questions which will have to be settled in the near future, the most important will be the size, the location and the use of the Gold Standard Reserve Fund. The huge coinage of rupess, especially when the price of silver was not very high, resulted in large additions to the Reserve. It stood at £ 26·2 million on 1st April, 1916, at £ 29·7 on 31st January, 1917 and at £ 31·5 on 31st March, 1917. During the year 1917–18 there was an addition of about £ 3 million and on 31st March, 1918, the fund amounted to £ 34·4 million. Except for about £ 6 million of cash placed by the Secretary of State at short notice, the whole of the Reserve is invested and located in London. More than 50 crores rupees worth of gold has thus been drawn to London on account of the Reserve and it will have to be brought back to this country and invested here. The highest limit of this fund seems now to have been reached and we must decide as to what is to be done with the profits that will accrue from the profits of rupee coinage in the future. The second question for consideraiion is the rate of exchange, and it depends largely upon the price of silver. The artificial character of the whole system will have to be removed and the establishment of a state bank is calculated to help the solution of this

problem. Many of the banking functions which are performed by the State to-day, such as issue of notes, making of remittances &c., will be more conveniently discharged by a central bank and the question ought to be boldly solved.

Chapter IX.

PUBLIC DEBT AND BANKING.

One remarkable feature of the finance of European states in recent years has been the large size of the national debts. Wars have been mainly responsible for the piling up of these debts and they are thus dead weight debts. Thanks to the Government of India's policy of steadily reducing the country's 'ordinary' or unproductive debt year after year, by utilising the surpluses, India was on the out-break of the war, practically free from the incubus and was, therefore, well prepared to face the war situation. The bulk of our public debt before the war represented outlay on railway and irrigation works and the amount invested in those commercial undertakings earned a decent rate of profit for the state after providing for interest, sinking fund and other charges. The position of the public debt was as follows before the special war contribution made an addition of £100 million.

India's Public Debt.

Millions of £

	Ordinary debt.	Productive public works debt.			Grand Total of Debt.
		Railways.	Irrigation.	Total.	
On 31st March.					
1908	37·4	177·7	29·9	207·6	245·0
1913	25·0	211·1	37·6	249·4	274·4
1914	12·8	222·0	39·4	261·4	274·2
1915	2·2	233·2	41·1	274·3	276·5
1916	2·0	234·4	42·4	276·8	278·8
1917	3·7	235·7	44·3	279·0	212·7

The floating debt and other liabilities are inconsiderable and are fully covered by assets. In the first two years of the war when no additional taxation was imposed the deficits were made up by a resort to temporary borrowing. The London market was closed to India on the outbreak of the war and through the annual loans were reduced in dimensions owing to the reduction of capital expenditure, Government had to resort to the Indian loan market for raising funds to meet the growing needs of the exchequer. The Indian war contribution to His Majesty's Government necessitated a big war loan and Government offered terms to the public on the same lines as those on which the loans in Great Britain were floated. The rate of interest had gone up everywhere and in order that war loans should be sufficiently productive, attractive terms had to be offered. Conversion facilities were attached to the war loans of 1917 and 1918 and there were long-term and short-term parts of the loans. As the proceeds of the loans were to be immediately offered to His Majesty's Government as parts of the gift, vigorous endeavours were made to make them as great a success as possible. The long-term loan of 1917, redeemable from 1929 onwards but not later than 1947, was issued at 95 Rupees and at 5 per cent interest. There were also 3 year and 5 year War bonds bearing 5½ per cent interest, free of income tax. These loans yielded a total of £ 29·5 million. Cash cer-

tificates were intended to appal to the small investor and gave £6·6 million. Thus the response was gratifying in the extreme. To this must be added temporary borrowing by means of treasury bills for 3, 6, and 9 and 12 months. They were calculated to give £30 million between October when the new experiment was started and the end of the financial year, 1917–18.

It is desirable that as large a portion of a nation's debt as possible should be held by its own people. Of our total registered debt, in 1916–17, 162 crores of rupees was in India and about £261 crores was in sterling and in England. The interest payable on these was 5¾ crores and 8½ crores respectively. The amount of the rupee debt held in England, has steadily declined in recent years, and out of 163 crores of that debt in 1917, only 8 crores was held in England. Of the total rupee debt, it is estimated, that more than a half is held by Indians. This improvement in the position of the national debt is a hopeful augury of the rapid economic development of the country in the near future. No doubt, the war loans were a splendid success on account of a combination of peculiar causes at work during the war period. The large profits which were being made by manufacturers and merchants as a result of war conditions and war disbursements, the difficulty experienced in finding an outlet for accumulated capital, the appeal to patriotism made on behalf of the war loans

and the vigorous compaign carried on for the purpose of getting people to subscribe,—all these facts combined, in this country as elsewhere, to bring into the state treasury large funds necessary for the prosecution of the struggle. In the absene's of such conditions the response to Government loans in the future is, of course, not likely to be similarly generous. But the people have learnt a great deal from the war and one of the lessons is the habit of regarding Government loans as a safe and remunerative source of income. Useful public works will, in the near future, require liberal financing and the Indian Government must be in a position to raise sufficient funds in this country for the purpose. The success of the war loans is particularly encouraging from this point of view and the economic development of India may well be rapidly promoted under the changed conditions in the near future.

It was feared that the Second War Loan, that of 1918, would not be such a success as that of the preceeding year had been, it being thought that the public had already invested up to the full limit of their resources. But actual experience belied these apprehensions. The report of the Controller of Currency on the second war loan, gives interesting comparative figures in this behalf and from it we see that the main section of the 1917 loan had realised slightly under 40 crores while the number of applications amounted to 77,932. The main

section of the 1918 loan realised nearly 51½ crores and the number of applications was no less than 1,03,382. The results of the post office section were equally satisfactory. The following comparative statement will prove instructive :—

	First War Loan.		Second War Loan.	
	No.	Amount Rs.	No.	Amount Rs.
Applications for Rs. 100	21,491	21,49,100	38,384	38,38,400
Applications over Rs. 100 & upto Rs. 5,000	45,131	4,89,08,549	53,667	5,43,55,300
Applications over Rs. 5,000 & upto Rs. 15,000	4,252	3,99,41,000	4,280	3,92,34,400
Applications over Rs. 15,000 & under Rs. 1,00,000	2,360	8,35,14,400	2,406	8,56,87,700
Applications for Rs. 1,00,000 & above.	698	20,6345700	949	32,1374500
Total ...	73,932	38,0858700	99,686	50,4490300

The cash certificates issued through the Post Office have practically become a permanent feature of Government borrowing and they tap sources which are not accessible to the ordinary loans. The following information regarding 5-year cash certificates is taken from the report on the working of the Post Office for 1917-18 :—

Cash Certificates.

Names of Circles.	Issued. Cost Price Realised Rs.	A.	Discharged. Amount Paid. Rs.	A.
Bengal and Assam ...	94,08,546	8	5,64,533	4
Bihar and Orissa ...	34,79,897	4	2,17,689	12
Bombay	2,57,48,553	8	58,77,445	0
Burma	70,78,369	8	11,73,016	12
Central	1,66,49,914	0	13,11,245	12
Madras	37,08,437	0	2,24,835	4
Punjab and N. W. F. ...	1,86 48,398	12	13,87,474	12
United Provinces ...	1,51,77,034	4	3,91,057	14
Total ...	9,98,99,150	12	1,11,47,297	12

The fact that out of about 10 crores worth of certificates, only a little more than one crore worth were discharged during the year is significant, as also the further fact that 20½ lakhs of the certificates were for Rs. 10 and only 5¾ lakhs and 18 thousand were for Rs. 100 and Rs. 500 respectively. We must again emphasise the important lesson of war loans viz. that poor as the people of India are, their small savings can be attracted to banks and Government treasuries in loans if proper facilities are given for investment, the formalities connected with the transactions are reduced and the whole procedure is simplified. Like the cash certificates,

bearer bonds would prove extremely popular and it is desirable that the several measures taken by Government to facilitate war loan operations should be continued in post-war times. People require education in the habit of banking and the ignorance of the masses stands in the way of progress in this as in so many other directions. But they can learn if the problem is properly tackled and their confidence is secured in schemes of this character.

At the time of the out-break of the war, the banking position in the country was generally strong and though the effcets of the recent failure of joint stock banks had not yet been wiped out, and some further failures were impending, public confidence was being steadily restored. Banks in India, as in other countries, rendered active assistance to Government throughout the war period and their position has materially improved. There is strong reason to believe that the want of well-managed banks is being keenly felt by the public and that banking institutions conducted on safe and sound lines with branches scattered over the country, have a great future before them. There was naturally a slight depression in the money market on the out-break of the war, but very soon things were restored to a normal condition. The bank rate is the barometre of money market conditions, and in 1916-17, for example, the fluctuations in this rate were constant, indicating a periodic

monetary stringency. But in 1917–18, supplies of money were satisfactory, thanks to the large balances which Government maintained with the Presidency Banks and the gratifying proceeds of the war loans. Periodical monetary stringency has been a grievance of long standing on the part of merchants and bankers in India, and it was one of the aims of Sir William Meyer to remedy the evil by placing larger funds at the disposal of Presidency Banks, so that through them they may reach other banking institutions and the trading public generally. In his review of his own financial administration, Sir William Meyer* made the following observations on this point :—

"I am able to record with satisfaction the measure of success which has attended my efforts to demonstrate the readiness of Government to secure, by a more liberal utilization of its funds relief to commercial and financial interests in times of stringency. It has been my consistent policy to give proof of this desire by making temporary loans (as has been done on occasion) to the Presidency Banks, by leaving in deposit with them, till actually required by us, the proceeds of our public loans; by avoiding as much as possible the lock up of funds in our reserve treasuries, and by the maintenance with the Presidency Banks of balances at all times considerably and at certain periods far, in excess of the standards previously observed. It is largely owing to action of this character that it has been possible to secure the money market against the strain to which our war finance must otherwise have exposed it and in particular to raise the large sums we have recently obtained by way of loan without materially inconveniencing the market. A striking feature of our financial operations in the last year has been the way in which

* Speech introducing the financial statement for 1918-19.

the money has tended to return to the larger trade centres, in other words, the extent to which there has been an increase in the supplies of floating capital in these centres. It would be premature to attempt to analyse the causes of this change in the Indian money market conditions, but I think it can reasonably be hoped that this change has come to stay and that one result will be that it will tend to eliminate to some extent the excessive seasonal stringency which has been in the past a characteristic of our money market during certain months of the year."

It is indeed premature to say that the improvement is a permanent one, but the change is strikingly illustrated in the following comparative statement:—

Bank rates.

Presidency Bank.	Maximum.		Minimum.		Number of changes in the bank rate.	
	1916–17	1917–18	1916–17	1917–18	1916–17	1917–18
Bank of Bengal ...	8	6	5	5	8	2
Bank of Bombay ...	8	6	4	5	10	2
Bank of Madras ...	8	8	6	6	4	3

The following statement shows the average Government balances with the Presidency Banks for the four years 1914–15 to 1917–18:—

Average Government Balances.

[In crores of Rupees.]

		Head Quarters.	Branches	Total.
1914–15	...	3·2	2·9	6·2
1915–16	...	2·6	3·0	5·6
1916–17	...	3·1	3·0	6·1
1917–18	...	8·2	4·5	12·8

The balances of Government with the Presidency Banks were much larger in 1917–18 than in previous years and this was the result of the war loans and Government's policy of keeping balances with the Banks on a higher scale so as to cause the least disturbance to the money market.

The position of the Presidency, Exchange and Joint Stock banks with regard to their capital, reserve and deposits in the five years, 1913 to 1916, will be clear from the following:—

Presidency Banks.

[In crores of Rupees.]

31st December.	Capital.	Reserves.	Government Deposits.	Other Deposits
1913 (pre-war year.)	3·7	3·7	5·8	36·4
1914 ...	3·7	3·8	5·6	40·0
1915 ...	3·7	3·7	4·8	38·6
1916 ...	3·7	3·6	5·2	44·7

A large increase took place in private deposits in the course of the year 1917, and the position in the beginning of December in that year was as follows:—

[Crores of Rs.]

	Govt. Deposits.	Private Deposits.	Cash Balances.
Bank of Bengal ...	3·0	30·7	16·5
Bank of Bombay ...	2·8	30·3	20·8
Bank of Madras ...	·9	10·1	5·2
Total ...	6·7	71·1	42·5

There was a similar increase in the deposits of Exchange and Joint Stock Banks:—

[Millions of £.]

	Capital and Reserve.	Deposits in India.	Cash balances in India.
1913 ...	37·8	20·6	3·9
1914 ...	36·9	20·0	5·5
1915 ...	36·7	22·3	5·0
1916 ...	37·9	25·3	6·7

There were in 1916, 68 Joint Stock Banks with 160 branches. The aggregate capital and reserves of the 48 out of them whose returns were available, amounted to Rs. 5·2 crores, the deposits to 25·7 crores and the cash balances to Rs. 6·2 crores.

	CLASS I. (20 banks with capital of Rs. 5 lakhs and above). Crores of Rs.	CLASS II. (28 banks with capital between one lakh and five lakhs. Crores of Rs.
Capital and Reserves	4·6	·63
Deposits	24·7	1·0
Cash balances	6·0	·17

The Deposits of banks in group I have recently increased after receiving a temporary set-back on the out-break of the war thus:—

	Capital and Reserves. Crores of Rs.	Deposits. Crores of Rs.	Cash Balances. Crores of Rs.
1913 ...	3·6	22·5	4·0
1914 ...	3·9	17·1	3·5
1915 ...	4·3	17·8	3·9
1916 ...	4·6	24·7	6·6

Post Office Savings Banks were the first to feel the effects of the war and the panic due to the outbreak of the conflict led to heavy withdrawals of deposits. Just before the war, the amount of the deposits in these banks had shown a tendency to increase, probably on account of the failure of the joint stock banks which appear to have diverted to themselves a part of people's savings which would have gone to the postal banks. The war stopped this progress and the recovery has been very slow. War loans and cash certificates must be largely responsible for this result, and some of the savings which would have been attracted to the postal banks have perhaps been diverted into other channels. In other countries, notably England, the business of savings banks seems to have increased along with that of other banks, and the contrast presented by India is clearly indicative of the backwardness and poverty of the country. The following statement shows the position of the Indian postal savings banks during the past few years.

Year	No of Depositors	Balance of deposits Crores of Rs.
1911-12	15,01,000	18·8
1912-13	15,67'000	20·6
1913-14	16,39,000	23·1
1914-15	16,44,000	14·8
1915-16	16,60,000	15·3
1916-17	16,47,000	16·5
1917-18	16 36,000	16·5

Public feeling has grown very strong in England during the war in favour of the establishment of industrial banks; and the need of financing industries through banking institutions has been driven home. Most of the prosperity of industries in Germany was due to the assistance the banks rendered to industrial enterprise there, and the system is going to be copied now in Great Britain. Ordinary banks do not think that financing of industries falls within their legitimate sphere and regard it as unsafe business. Special banking institutions are, therefore, necessary to help industries, and their need has long been fett in India. The establishment of the Tata Industrial Bank is a step in the right direction, and the industrial development of India largely depends on the supply of capital to new industries. The industrial possibilities of India have been clearly revealed by the war, and a variety of articles were manufactured in this country and used for our armies on a scale which had never been dreamt of. The Munitions Board made use of indigenous raw materials, and with the existing agencies, expanded to suit the requirements of war, turned out commodities which could not be imported. The Industrial Commission has made several very useful recommendations in this connection and has discussed among others, the problem of financing industries, large and small.* Government must now take up the whole question

* See Report, Chapter XX.

of industrial development and devise measures for assisting industries in different ways.

The recommindations of the Industrial Commission with regard to industrial finance may be summarised here in its own words:—" In order to meet the difficulties experienced by small and middle class industrialists in obtaining financial facilities and generally to provide a more elastic system of individual finance, industrial banks are needed. An expert committee should be appointed to consider what additional banking facilities are necessary, whether for the initial or for the current finance of industries; what form of Government assistance or control will be required to ensure their extension on sound lines as widely as possible throughout the country; and whether they should be of provincial or of imperial scope or whether both these forms might not be combined in a group of institutions working together. ......In a few cases Government should provide direct financial aid. Such assistance might take the form of guarantees of dividends, loans of money, undertakings to purchase output, or contributions to share capital. All these forms of aid should be subject to suitable precautions."

Chapter X.

CONCLUSION.

In the preceding chapters reference has frequently been made to the problems of reconstruction in India. Some people will be inclined to think that notions conveyed by such words as 'reconstruction' and 'reorgnization,' which are current in other countries, are out of place in India. In their opinion, the war cannot have produced upon this country such a profound impression with respect to needs of development as it has upon England, for example, where the social and economic systems are going to be overhauled. They will concede the obvious necessity of restoring the administrative, commercial and financial machinery to the pre-war conditions and of introducing slight modifications in its working so to remove certain glaring defects. But in their opinion no radical changes are either necessary or possible in India and the war has not modified the people's attitude on life to the extent of making them feel the need of far-reaching reforms. One would hope that this theory about the East generally and about India particularly has been shattered by the experience of war times. The sooner this idea of reconstruction being required only for certain nations and of its being out of place in other nations, is abandoned the better for all concerned. It is not mere

love of imitation that leads advocates of reform in India to use the language of British or American statesmen with reference to national reconstruction. They speak what they feel and have long felt. The war has given special point to their aspirations and expression of opinions.

Since Napoleon's time, all big wars have affected more or less profoundly the ideas and institutions of European nations. The successive revolutions in France, the Franco-German war, the Boer War and the Russo-Japanese war produced important effects. Owing to the improvement in the means of communication during the last thirty or forty years, the sensetiveness of nations has materially increased. The effects of the Boer War, of the grant of self-government to South Africa and of the victory of Japan over Russia on India were perceptible. The war which has just closed is unprecedented in history from every point of view, and the fact that it was waged by the Allies for the victory of certain exalted and clearly defined principles, is of the greatest significance. The cause of right, liberty and democracy was never so emphatically and persistently proclaimed as during the recent world-war and the expressions used by the statesmen of Allied nations to explain their aims, have become household words in India. Even the masses in India now know what the Allies stood for and the cause for which they suffered. Indian

soldiers shed their blood in three different continents in the company of their European brethren, and India made a valuable contribution to the successful prosecution of the struggle in a variety of other ways. How, under these circustances, could India not feel, as England and France feel, that the political, social and economic institutions and methods of the people must be improved in order that their progress should be rapid and healthy? They would naturally aspire to become, intellectually, physically, socially and politically what people in other nations are and would like to be in the near future.

There is an awakening throughout the land; the national consciousness has been quickened. The very political and social controversies of the last four years are an indication of the new life which has been poured into the Indian nation. People want self-government conceded to them. They want social elevation and equality. They call for a rapid development of indigenous industries and a wide diffusion of education. Having lived under war conditions they have acquired a new vision and feel new wants. Trade restrictions, high prices, increased profits, the visit of thousands of people to war areas in one capacity or another, lectures on war, war loans, contributions to war relief funds, all these have combined to change the people's attitude on life. Indian capitalists and manufacturers are on longer what they were. The

notoriously inert and unorganized labour in India has awakened to a sense of its condition and rights as was testified to recently in Bombay. The lower classes have become conscious of the need of improvement and amelioration. In short, there is unrest everywhere, which is the precursor and guarantee of progress, and it has become imperatively necessary to undertake schemes of development which will raise India to the height of other nations, politically, socially and economically.

For this purpose our administrative, financial and industrial machinery has got to be changed so as to answer the requirements of the situation. More and better education, improved sanitation, and better housing must be provided. Means must be adopted for ensuring larger production of wealth and equitable distribution of the national dividend. The starting of industries and banks must be promoted and trade must be encouraged. Indians must be trained to organize and manage economic enterprises and our villages must be improved Agriculture stands badly in need of improvement and the evil of indebtedness must be effectively combated. By means of land banks and co-operative credit societies, agriculture must be supplied with easy finance. Scientific and technical education must be provided and cottage industries must be assisted. The country ought to be given a good currency system and its reserves

must be utilised for its development. The communications need improvement and expansion and the thirsty land must be given more irrigation. The backward classes must be brought in a line with the advance classes and social injustice and inequality must be removed. Legislation and administration must be brought under popular control and Indian interests must be safeguarded in this country and outside. The condition of labour must be improved and it must be educated and organized. Economy in public expenditure and the imposition of productive and equitable taxation must be arranged and in that way the means for bringing about healthy development must be devised. Our Government and people must entertain the same aspirations about national advancement as statesmen like Mr. Lloyd George do with respect to their own nations. In India we have to adopt measures similar to those adopted in other countries for social reconstruction and national regeneration. The war has glaringly exposed the weakness of India as it has brought out its possibilities. What is now required is faith in India's destiny, imagination, earnestness and determination never to rest until every possible effort is put forth to uplift the country and to make the people more happy. In the words of President Wilson, the war was a people's war and the Indian people have as much right to benefit by it as those of any other country.

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